85-6017/

Gouvernement
du Québec

1985-1986
BUDGET

Budget
Speech

Delivered before the Assemblée nationale by
Mr. Yves L. Duhaime, ministre des Finances,
on April 23, 1985

Gouvernement du Québec
Ministère
des Finances

ISSN 0481-2654
ISBN 2-551-09044-X

Legal Deposit, 2nd quarter 1985
Bibliothèque nationale du Québec

INTRODUCTION

— A changing world 5

— The government and the economy 6

THE STATE OF THE ECONOMY AND OF PUBLIC FINANCES

The economy 8

— The job situation 8

— Sources of growth in 1984 8

— Prospects for 1985 9

Public finances 10

— Budgetary revenue 11

— Budgetary expenditure 11

— Budgetary balances 12

— Objectives to be met 12

MEASURES TO BE TAKEN TO REACH OUR OBJECTIVES

Personal income tax 13

— Personal exemptions 13

— Deduction for child care expenses and employment expenses 14

— Transition plan 15

— Tax table 15

— Succession duties 17

— Minimum tax 17

— Impact of changes on household income 17

— The prospects 18

Support for business and the economy 19

— Strengthening the financial structure of business firms 19

— People working abroad 21

— Internal Financial Centre in Montréal 22

— Improvement of mining taxation 22

— Measures designed to encourage farming 23

— Measures designed to encourage private woodlands 23

— Clarification of local taxation of businesses 24

— Government corporations 24

— Establishment cf the Resource Development Fund 26
— Attaining our objectives 26

Equalization 27

Other measures 27
— Tobacco tax 27
— Sales tax 27
— The taxation of oil refining companies 29
— Ferry tolls 29
— Miscellaneous measures 29

FINANCIAL FRAMEWORK 30

CONCLUSION 32

TABLES:

Statement of Financial Transactions
Budgetary Revenue
1985-1986 Estimates 33

Statement of Financial Transactions
Budgetary Expenditure
1985-1986 Estimates 34

Statement of Financial Transactions
Non-budgetary Transactions
1985-1986 Estimates 35

APPENDIX A

Fiscal and Budgetary Measures A-1

APPENDIX B

Medium-Term Perspectives
of the Gouvernement du Québec's
Financial Position B-1

INTRODUCTION

With each spring, after the beginning of the new session, comes the Budget Speech. This exercise enables us to have a look at ourselves, size up our situation, analyse government decisions and policies, face up to the challenges of the future and decide upon the means to do so.

The harsh test to which our society was put during the years of the recession, from which we have only just emerged, will long be remembered. The years were 1981 and 1982, with their runaway inflation, falling investments, frightening unemployment rates and interest rates that could almost be termed savage. In short, a veritable earth tremor, not only at home and in other industrialized countries, but throughout the world. Today we still suffer its effects, and much remains to heal over, in employment, for example.

Like so many others, Québec was hard hit by these difficult times, perhaps even more than others, primarily because of its high degree of openness to the world. It must never be forgotten that Québec exports close to 40 percent of its gross domestic product, in good and bad years alike. We therefore feel the effects of the slightest adverse movement in the world economy. Throughout the years we have become accustomed to living dangerously, but at what a price!

The only good — doubtful to say the least — that the recession, and its effects on our economy, will have had on the Budget, employment, and our production, is to make us more aware not only of our weaknesses but also of our strengths, and above all of our ability to adapt to shifting and sometimes unexpected situations.

— A changing world

With the recession scarcely behind us we can already see the warning signs of changes on the horizon. The world economy is in a process of accelerated transformation. During the next quarter of a century we are going to see not only the creation of a continental North American economy but of a world economy, at least with regard to market economies. And it is in this context that we will have to work. We are therefore going to have to adapt, and to make the best of this new situation, through our ability to innovate, by using our immense resources, our brains and our imagination.

The fact that international trade is increasing at a much faster rate than world production cannot be ignored. The GATT agreements signed in Geneva in 1977 are rapidly lowering tariff barriers with our trading partners. Our neighbours to the south, the greatest industrial power in the world, are exerting pressure on our economy through their monetary, fiscal and tariff policies, while at the same time remaining our largest customer. The European Economic Community, now a group of twelve, has for some years been the most powerful trading group in the world.

In Canada, a new government is trying to cut its way through the economic and financial tangle inherited from an uncaring former regime. In this respect, there will undoubtedly be changes from the economic, fiscal and monetary viewpoints as well as from the financial one. Overall, the provinces of Canada, also very much part of the economy of the United States, at the same time our main trading partner, want freer trade.

In addition, on the international market we can now see new, perfectly legitimate, offensives from developing countries which are beginning to compete in areas that until recently were our bailiwick. We are thus in a position to take the measure of the challenges we will have to meet.

We must face these challenges squarely, without trying to dodge the difficulties, perhaps the most exciting task of today. We will see the year 2000 and the following years, we are in the thick of the technological revolution. We must certainly not be ruled by it, but rather participate in it, and mark it with our original and "unique" nature, that of Quebecers, firmly entrenched in life on this continent.

However, Mr. President, as a society and as a people, we must take the means necessary to meet our challenges. The last quarter century of our history will be forever marked by the Quiet Revolution and its sometimes calm, sometimes troubled, waters. The next twenty-five years will be very different. In our actions we must aim for excellence. In short, we must strive to be the best, the most productive, competitive, bold and innovative, to use our human resources to the maximum, to fully exploit the economic system by using the talents and abilities of our young people, to invest more in research and development, to create and generate wealth. This is the challenge of the years to come.

We must concentrate our attention on the new technologies which, far from frightening us, should provide us with a powerful incentive. A new world is opening up, with its computers, its microprocessors, its robots and the whole arsenal of information processing, teleprocessing, electronics and laser, plasma and office technologies, and of course, with the generation of new products that this profound change will bring with it. It is in this new world that another major challenge will arise for our business firms and our workers.

Change itself is perhaps the greatest challenge we shall all have to face, and we ourselves must adapt and change. A few moments ago I spoke of the creation of a continental economy, and a world economy as well. This is going to happen quickly, very quickly indeed. And when it does Quebecers must draw on all the genius of their entrepreneurship to keep their businesses going, to continue to produce and to create jobs, to retain their share of the major international markets. We shall have to take greater risks and show more vitality. If we do not, others will step in and take over.

Adaptation and change on the part of firms, whether they are multinational, large, medium-sized or small, will have to come from the directors, administrators, management and shareholders as well as from employees and workers and their unions.

— The government and the economy

The government must, for its part, encourage the initiatives of these various economic agents. It is indeed important that the State encourage and provide incentives for the productive, dynamic elements of our society, without which no coherent economic development is possible.

Taxation is one of the most direct and effective means of promoting creativity and increasing the incentive to work. This phenomenon is, moreover, amply illustrated in the White Paper on the Personal Tax and Transfer Systems released last January.

This firm determination to encourage the productive elements of our society must, however, take into account the fundamental objective of our government to ensure equality among all individuals and all groups in our society. The first form of equality, and by far the most important, is employment for all. In this respect, the integration of young people into the labour market and the continuing retraining of workers must remain a constant preoccupation.

Equality must also represent a series of catching up measures for underprivileged groups. It is essential that the State guarantee that basic needs are met, for the dignity, health and well-being of the population. A tax system must also ensure equitable taxation treatment. This means an identical contribution for an identical ability to pay, and a higher contribution when there is a greater ability to pay.

In short, Mr. President, while guaranteeing fiscal equity and the protection of the underprivileged, the government must, however, see that the driving forces of the economy which generate growth and employment are encouraged and increased.

In the same vein, I must mention the government corporations which are active in numerous sectors of Québec's economy. It seems to me that we should ask ourselves a simple question: is it still just as vital and necessary for the government, through its enterprises, to maintain itself in the way that we know today? During the past quarter century, more and more of our business men and women have assumed direction of an increasing number of business firms. And we have also seen the emergence of private and public capital ready to take over.

Let us ask the question more directly, and I am now asking it of the Members of the National Assembly who represent the entire population of Québec. Has the time not come for the government to withdraw from certain activities, to recover its capital to use it more judiciously elsewhere? Should it not redeploy its efforts in developing our resources and new technologies?

In short, Mr. President, change is ahead. In just another 15 years, we will be in a new century, in a vastly different world, no doubt, in which the best and most tenacious will get ahead. As I said earlier, we shall have to adapt. We must encourage transformations in our business firms and our institutions, acquire mastery of new technologies and use them to progress, review and change the government's action vis-à-vis the economy, retrain our manpower and upgrade it more adequately, give our young people the opportunity to get ahead and give them a place in society, create wealth and ensure its equitable distribution.

We must bring all our efforts to bear on these vast questions. We must assure all Quebecers adequate living standards and a place in society, in a world that is becoming increasingly competitive. This vast openness to the world, accompanied by an almost permanent requestioning, implies that these questions must be resolutely tackled.

In this Budget Speech certain answers will be given as to the means we intend to use to speed up the work already undertaken in some sectors and to enable the government, in establishing its financial framework, to acquire the financial resources to accomplish its social and economic tasks. Nothing can be built in a day; but priorities must be established, taking into account the ability to pay of all Quebecers, by holding fast to the hard facts of every day without losing sight of our objectives.

Let us now have a look at the economic situation, public finances and prospects for the year to come.

THE STATE OF THE ECONOMY AND OF PUBLIC FINANCES

THE ECONOMY

— The job situation

Economic recovery gradually began to make itself felt in 1983, but it was in 1984 particularly that, for the second consecutive year, the Québec economy showed considerable improvement. My comments at this point will be brief; details of the year's results are given in Appendix I, The Economy in 1984.

The most spectacular element of the situation was without a doubt job creation. While, in 1983, 58 000 new jobs were created in Québec, on an annual basis, a growth rate of 2.2 percent, 1984 saw a growth rate of 3.0 percent, or 80 000 new jobs. If we consider the employment statistics for one month of a year compared with the same month the preceding year, we find that job creation figures were 53 000 in December 1984 by comparison with the figures for December 1983. The unemployment rate therefore dropped from a record 15.4 percent in August 1982 to 11.9 percent in December 1984.

These results are encouraging, particularly if we compare them to the figures for the whole of the Canadian economy. For two years the increase in both employment and the GDP was greater here than in Canada as a whole. While the respective production growth rates for 1983 and 1984 were 4 percent and 5 percent in Québec, in Canada as a whole these rates were 2.7 percent and 4.8 percent for the same years. In employment, the figures were 2.2 percent and 3.0 percent in 1983 and 1984 respectively in Québec, and for Canada as a whole, 0.8 percent and 2.5 percent. In short, for these past two years, one-third of all new jobs in Canada were in Québec.

— Sources of growth in 1984

We shall now examine briefly the causes of growth in 1984.

First let us look at the behaviour of households. The slowdown in inflation, the increase in real income and the improvement in the financial position of households during the past few years resulted in a sustained increase in personal spending in 1984. In addition, an improved situation on the labour market led to greater consumer confidence. For the second consecutive year, therefore, households reduced their rate of saving. Retail sales went up by 11.4 percent in 1984 compared with 9.7 percent in 1983. It is estimated that, in volume, this increase was the largest recorded in Québec for the past ten years. In the whole of Canada sales increased by only 8.2 percent in 1984.

For investments, too, 1984 was a remarkable year. Total investments amounted to $15 600 000 000 in Québec, an increase of 11.6 percent, while in Canada as a whole the rise was 2.1 percent. This difference is attributable to both non-residential and residential construction. While in Canada investments in non-residential construction increased by 3.5 percent, in 1984 they rose by 11.5 percent in Québec. It is interesting to note that this recovery had its source above all in the private sector; this was also true for the primary sector, where the growth rate was 9.6 percent, and for the manufacturing sector, with a record increase of 36.9 percent. In the trade, finance and commercial services sectors, the growth in investments reached a level of 21.8 percent, an impressive performance.

Residential construction in Québec was one of the major driving forces of the growth in the economy. Housing starts rose from 40 000 units in 1983 to 42 000 in 1984, and for the first months of 1985 this pace was maintained. In fact Québec was the only province to enjoy a rise in new housing construction in 1984. For all the other provinces of Canada there was a drop of 24 percent in housing starts. Therefore, housing starts in Québec represented 31 percent of new housing construction in Canada.

The strength of the American recovery resulted in an increase in exports that was much higher in Canada than in Québec. For all of Canada, exports of goods rose by 22.2 percent in real terms, stemming primarily from an increase of 28 percent in Canadian shipments to the United States. During this time, the value of international exports loaded in Québec went up by about 14 percent. Automobile products comprised the main component of the rise in Canadian exports, which was of the order of 37 percent. The principal beneficiary was Ontario, where there has always been an overconcentration — 90 percent — of the Canadian production capacity for automobiles and parts. It should be stressed that the sale of automobiles and parts accounted for 55 percent of Ontario's exports to the U.S. Quebecers bought over 25 percent of the Canadian production of automobiles. If we had our fair share of the production capacity in Québec, many things could change. But we can console ourselves with the thought that the sources of growth in 1984 were divided fairly equally among three major sectors: household demand, capital investment and exports.

For the whole of Canada, it was mainly the recovery of the U.S. economy which brought about the improvement in the Canadian economy. In Québec we enjoyed renewed vigour in consumer demand and the demand of business firms for investments. In both cases, demand may be attributable to consumer and investor confidence in the future of Québec.

There is no doubt at all that the figures for capital investments reflect the Québec government's efforts to revive the economy. Continuation of the Corvée-Habitation program for the entire year prevented the drop in housing starts experienced in the rest of Canada. Recovery programs designed to help businesses, especially the program to speed up private investment and the programs of support and assistance for business firms backed by the Société de développement industriel (SDI), stimulated investment. Capital investment by the public sector in the water purification program and investments in the energy sector, as well as Hydro-Québec's rate guarantee programs, helped revive investment and employment.

— Prospects for 1985

The factors that helped Québec's economic growth in 1984 wil be present only in part in 1985. The strong performance of the U.S. economy carried the Canadian and Québec economies along with it, but should slow down in 1985. The rate of growth of the American GNP fell between the first and second halves of 1984, from 8.3 percent to 3.6 percent. The American recovery has since then been showing signs of slowing down, since the growth rate of production is estimated at only 1.3 percent as at the first quarter in this country. These developments in the United States as well as the persistent high real interest rates will affect the performance of the Canadian economy whose production volume should go up by a little less than 3 percent.

Here at home, residential construction could prove to be less strong. On the other hand, business investment should enjoy sustained growth, particularly in the manufacturing sector because of the many major projects that have been carried out, particularly in the aluminum sector and because of the continued modernization of pulp and paper mills, which should result in investments of close to $500 000 000 in 1985. Expenditures related to the government's economic recovery program will certainly help maintain economic activity in 1985-1986; expenditures directly related to recovery will amount to $354 000 000, an increase of $108 000 000.

Household demand is more uncertain. It is difficult to anticipate whether or not the consumer will continue to use his savings or replenish them, or hold on to his assets, particularly since changes in interest rates are just as uncertain.

Given all these factors, and assuming that household spending will go up at the same rate as income, it is expected that the growth rate of the Québec economy will slow down this year and level out at around 2.5 percent. Job creation will therefore probably not go up very much in 1985, and the reduction in the unemployment rate should be less accentuated than in 1984; but it could drop from 12.8 percent to 12.3 percent.

This estimation is made on the assumption that the federal government will maintain its present macroeconomic policy. This means that, in the event of a policy of accentuated reduction of the federal deficit, the monetary policy must become more expansionist in order to prevent such a reduction from adversely affecting job creation in Canada and in Québec. At the Prime Ministers' Conference on the Economy in Regina, Québec asked that the monetary policy offset the effects of any reduction in the federal deficit.

The results for 1984 and the prospects for 1985 are a good illustration of the need for the Québec economy to face the future challenge of international competition. Households can support economic growth in the short term by using their savings, but this cannot go on indefinitely. It is much the same for business firms but not for the same reasons; they can stimulate demand during one stage of investment, but they cannot continue to invest without the presence of expanding markets and outlets for their products.

Exports constitute the element best able to bring about accelerated growth in an open economy like that of Québec. It is therefore essential for our business firms to continue the battle for a productive place on outside markets.

Another conclusion to be drawn is that a great deal of effort will be necessary before the unemployment rate can be brought down to a humanly acceptable level. Job creation will therefore continue to be the first economic and social priority for Québec society in the years to come.

After this brief summary of the economic situation in 1984, and of the prospects for 1985, I wish to sum up the state of our public finances.

PUBLIC FINANCES

The good performance of the Québec economy in 1983 and 1984 is also apparent in the promising developments in public finances in 1984-1985. For the second consecutive year, the gouvernement du Québec has ended the year with a deficit and net financial requirements equal to or less than what was estimated in the Budget Speech. This result was obtained during the last fiscal year despite the fact that higher than expected interest rates adversely affected the debt service and despite the lower than anticipated growth in the government's budgetary revenue.

STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(in millions of dollars)

	1983-1984	1984-1985		
		Budget Speech 1984-05-22	Preliminary Result[1]	Changes
1. Budgetary transactions				
Revenue	+ 21 410.9	+ 22 465.0	+ 22 340.0	- 125.0
Expenditure	- 24 523.5	- 25 640.0	- 25 515.0	+ 125.0
Deficit	- 3 112.6	- 3 175.0	- 3 175.0	—
2. Non-budgetary transactions				
Investments, loans and advances	- 150.5	- 170.0	- 172.3	- 2.3
Retirement plans account	+ 1 056.7	+ 1 205.0	+ 1 185.2	- 19.8
Other accounts	- 14.4	+ 40.0	+ 156.0	+ 116.0
Balance	+ 891.8	+ 1 075.0	+ 1 168.9	+ 93.9
3. Net financial requirements	**- 2 220.8**	**- 2 100.0**	**- 2 006.1**	**+ 93.9**
4. Financing				
Variation in cash position	- 13.7	—	- 210.7	- 210.7
New borrowings	+ 2 797.0	+ 2 890.0	+ 3 280.8	+ 390.8
Less: Repayments of borrowing	- 562.5	- 790.0	- 1 064.0	- 274.0
Total	**+ 2 220.8**	**+ 2 100.0**	**+ 2 006.1**	**- 93.9**

N.B. A minus (-) sign indicates a financial requirement and a plus (+) sign, a source of financing. With respect to the variation in cash position, a minus (-) sign indicates an increase and a (+) sign, a reduction.

1 1984-1985 financial data are based on results registered from April 1984 to February 1985 and an estimate established on April 4, 1985, of revenue and expenditure recorded during March and April 1985 on transactions of the preceding year, according to accounting practices in effect.

— Budgetary revenue

In 1984-1985, the growth in own-source revenue was slower than that of the GDP, the former amounting to 5.8 percent and the latter, to 8.4 percent. The main reason for this modest growth was the reduction in the fuel tax from 40 percent to 30 percent on November 15, 1983, depriving the public treasury of some $350 000 000 in revenue over the full fiscal year. The gradual abolition of autoroute tolls and the relatively high costs of benefits granted taxpayers under the Stock Savings Plan are also contributory factors in the low growth in own-source revenue compared with that of the GDP. Despite everything, Québec's tax effort for all economic agents in the private sector, compared with that of Ontario, dropped from 9.7 percent to 7.8 percent between 1983 and 1984.

Compared with what was estimated in the last Budget Speech, total own-source revenue fell by $262 000 000. This can be explained mainly by a drop in inflationary pressures that was more marked than anticipated, particularly with regard to wages, while the real growth in the economy materialized as expected. The trend first affected personal income taxes and employer contributions to the Health Services Fund, the reduction being $335 000 000 in one case and $45 000 000 in the other. Retail sales were stronger than expected, particularly the sale of automobiles, which partly offset this downward trend, and an increase of $91 000 000 was recorded in the retail sales tax compared with what had been predicted. I shall deal with federal transfers later.

— Budgetary expenditure

Budgetary expenditure had been estimated at $25 640 000 000 at the time of the Budget Speech. But real expenditures will be $25 515 000 000, a reduction of $125 000 000. This decrease was the result of lapsed appropriations which more than compensated for the

additional expenditures arising from supplementary appropriations and other budgetary overruns. Among the principal items of these lapsed appropriations was the reduction in the inflation rate and its effect on the total payroll of employees in the public and parapublic sectors. On the other hand, there was a large overrun in the debt service and part of the supplementary appropriations were used for this purpose.

The final figure obtained represents an increase of only 4.0 percent over the preceding year. However, it is necessary to stress that a sum of $431 000 000 had been charged in advance to the 1983-1984 fiscal year rather than to that of 1984-1985 with a view to using the fortuitous budgetary revenue from the federal government. By adjusting the data to take this advance payment into account, we in fact obtain a growth rate increase in expenditures of 7.7 percent in 1984-1985 compared with the preceding year, which is less than the increase in the GDP. It was also possible in 1984-1985 to finance new expenditure programs totalling almost $600 000 000, mainly with a view to recovery and development, without increasing the government's share in the GDP. It is here that we can see the very positive results of the government's attempts to rationalize expenditure and the very tight control kept over employee numbers in order to adapt to a difficult economic climate, at the same time protecting its economic task and providing solid support for investment and the efforts made by business firms.

— Budgetary balances

Let us now examine the way in which budgetary balances have changed. The 1984-1985 deficit is $3 175 000 000, which corresponds exactly to the estimate contained in the Budget Speech. This level of deficit is relatively similar to that of the last few years. It is for this reason that the deficit-to-GDP ratio has continued to fall since then.

Performance noted with regard to net financial requirements is even more remarkable, as they are $94 000 000 lower than forecast in the Budget Speech last year. Consequently, they are lower than in 1980-1981. This tendency toward a drop in net financial requirements has obviously facilitated transactions on financial markets. Appendix II, devoted to the financial position, indicates that, during 1984-1985, the discrepancy between interest rates paid by the gouvernement du Québec and those paid by other borrowers fell to an all-time low in recent years.

Results for 1984-1985 have proved to be positive in more ways than one. The deficit has been maintained within the limits forecast, despite the increase in interest rates and a decline in own-source revenues. Not only have the projected net financial requirements not been exceeded; they have even been reduced. As a result, both indicators continue to improve markedly when compared with the GDP.

This financial performance is all the more remarkable as it occurred despite the injection of some $1 000 000 000 in economic recovery programs during the last two years, and despite a significant reduction in the tax burden. However, such results do not entirely satisfy the government's financial goals; they still imply a level of deficit which is causing the debt to grow at too rapid a rate.

— Objectives to be met

The reestablishment of the financial framework and the reduction in the tax burden of Quebecers within the context of rather modest economic growth obviously represents a considerable challenge with regard to the management of government finances. When economic growth does not engender very substantial budgetary dividends and when federal transfers stagnate, the accounting equation of the framework leads to very clear conclusions: if the government wishes to reduce the tax burden and the deficit, it can only do so by reducing expenditures. Doing so is not without consequences. Since 1981-1982, budget cuts have averaged some $650 000 000 per year. It is fairly obvious that it will be necessary to pursue this policy, even during a period of growth, in order to restore room to manoeuvre in the future, and to inject the dose of competitiveness that is so necessary to our economy.

MEASURES TO BE TAKEN TO REACH OUR OBJECTIVES

Mr. President, having pinpointed some of the challenges facing us, and having outlined our budgetary position, the state of the economy and prospects for the year to come, I now wish to speak about some of the fiscal and budgetary measures that I am proposing to the National Assembly in this Budget.

Let me say at once that the Appendix on Fiscal and Budgetary Measures is an integral part of the Budget Speech and in it are given the details of the measures announced. I will confine myself here to explaining the essentials and the principal features.

PERSONAL INCOME TAX

Last January, we published the White Paper on the Personal Tax and Transfer Systems, in which a complete reform of taxation in this realm is proposed. I said at that time that the White Paper would be the subject of consultation, which will take place shortly, and that it would be studied by a parliamentary committee, which will also be done. But in the meantime taxation policy cannot remain at a standstill, and I therefore intend to implement certain components of the White Paper, to take effect January 1, 1986.

Our present tax system contains several inequities, in particular with respect to the situation of households with children, and above all of households that take part in the labour market. The steps to be taken are clear and obvious; we also know that the tax level itself is too high for certain income categories. It is essential to act in these two areas.

— Personal exemptions

I shall deal first with personal exemptions since they make the difference between the taxes to be paid by the various categories of households.

In principle, in our tax system the purpose of personal exemptions is to ensure that the income serving to defray the cost of the essential needs of a taxpayer and his dependents is not taxed. They are therefore deducted from taxable income so that only the portion of the income over and above what is required for basic needs is taxed. The government can take these needs into account in two ways. Thus, when income is insufficient to meet essential needs the State supplements it by means of transfer payments. But in no case must the government tax the portion of taxpayers' income necessary for the essential needs of citizens and their dependents. This seems to me to be one of the primary rules of fiscal equity. We are therefore putting it into effect in this Budget, to come into force next January 1, by means of a substantial reduction in personal income tax.

Although assessment of essential needs has been the subject of in-depth inquiries and studies on income tax to calculate the social aid benefits necessary to meet these needs, the same has never been done for personal income tax. This has resulted in a number of inequities. Families with children find themselves at a serious disadvantage, as do households in which only one spouse earns income, while others are comparatively well treated.

To offset these injustices, from now on the different personal exemptions will be restructured to take account of the results of a study on the essential needs of the various categories of households. This study was conducted by the ministère de la Main-d'oeuvre et de la Sécurité du revenu.

First, the basic exemption and the married person's exemption will be made the same. The married person's exemption will therefore be increased from $3 960 to $4 560 as of January 1, 1986. It will thereafter be raised to $4 880 in 1987 and to $5 280 in 1988, when it will reach the level of the basic personal exemption. It will therefore be recognized that the essential needs of a couple are the same whether only one spouse works or both work.

Second, with regard to children, the White Paper presents two possibilities: to create personal exemptions and abolish family allowances, or to keep the present system of family allowances. I believe we must keep the advantages of both systems. I am therefore announcing a new exemption for dependent children. For the 1986 taxation year, the exemption for the first dependent child under 21 or 21 or over if he or she is studying will be $1 870 and for subsequent children, $1 370. The present Québec family allowances system will be retained, but will be considered in determining the taxpayer's income. Federal family allowances will become taxable, as they are now in the all other provinces that grant exemptions for dependent children.

In the case of single-parent families, a specific system will apply to them, and will guarantee them the present level of personal exemptions, until the new system becomes more advantageous.

Third, an additional exemption which may reach $2 690 will be introduced for children who are studying at the post-secondary level to take more adequate account of the cost of their extra needs.

The age exemption will only be maintained for retired people, for reasons of fiscal equity for workers under 65. This exemption will no longer be indexed, however, since it is not based on the essential needs of this category of taxpayer, which are already taken into consideration in the basic personal exemptions.

A special exemption will be created for single people living alone, since the essential needs of such persons are greater than those of single persons sharing their dwelling with another person. This exemption will be $590 in 1987 and $820 in 1988. Other changes will also be made to the exemptions. The details are in the Appendix.

The underlying principle of our system is to avoid levying taxes on income used to defray the cost of the essential needs of the various categories of taxpayers. Although we can organize the income tax system to this end by means of personal exemptions, it is clearly more difficult to grant exemptions to taxpayers whose incomes do not enable them to pay property and consumption taxes. These must be offset in some way, and the means to do so is to use tax credits or a negative tax.

Our Québec tax system already includes a property tax refund for this purpose. This principle will be retained, but the terms and conditions will be changed to ensure that this refund is not made twice, through a tax credit and personal exemptions. Furthermore, measures will be taken so that low-income households are not penalized by this change.

A consumption tax credit will also be instituted so that taxpayers do not pay consumption taxes on the portion of their income used to defray the cost of essential needs. This credit will be $67 per adult and $22 per dependent child in 1986. However, it will be reduced at a rate of 3 percent of income exceeding the personal exemptions and certain deductions related to employment. It will become refundable, however, only after it has been integrated into the calculation of social benefits.

— Deduction for child care expenses and employment expenses

It is a recognized taxation principle that the costs incurred by earning an income should be deductible before such income is taxed. It seems to me, however, that the way in which this principle is applied clearly favours taxpayers with business and investment income. The present 3 percent deduction for employment expenses, with a maximum of $500, appears to be insufficient. In order to remedy this situation, I am therefore announcing that the deduction for employment expenses will be doubled and brought up to 6 percent in 1986. This will be of particular benefit to low-income wage-earners who will be able to take advantage of the maximum of this deduction on earnings of $8 333 rather than on $16 666 as is the case at present. In order to respect the constraints of the government's financial framework, the maximum of $500 will be retained for 1986, but increased to $600 in 1987 and to $750 in 1988.

The present child care expenses system is also inadequate, for the maximum deduction is too great for children of school age and insufficient for children under 6. This system will be entirely reorganized to bring it more into line with the needs and expenses arising from child care. For families with the most pressing need, that is to say, those with children under 6, the maximum child care deduction will be raised from $2 000 to $3 510 as of January 1, 1986. For children of school age, the maximum deduction will be slightly reduced, from $2 000 to $1 755. Finally, children 12 and over will no longer have a right to this deduction. In addition, this deduction may be claimed by the spouse with the highest income, and the estimated amount of the expenses may reduce the at-source tax deductions.

Finally, I am announcing that the lump-sum deduction of $100 for charitable donations will be withdrawn as of January 1, 1986. This deduction has already been withdrawn at the federal level in order to facilitate collection of modest amounts by charitable organizations and with a view to general tax equity. It seems logical, therefore, to bring our policy into line with the federal policy on this point.

— Transition plan

The changes made in personal income tax are of considerable scope. They will mean a real drop in taxes for the vast majority of Quebecers, whatever their taxation level. But a transition period will be necessary in implementing these changes.

This transition plan is based on the fact that the cost of essential needs, on which personal exemptions depend, will be indexed each year to take account of the rise in the cost of living. Most personal exemptions will therefore be increased beginning in 1986. I wish to stress the fact that the level of exemptions granted in 1986 will include recovery of the indexation not granted on January 1, 1985. Under this transition plan the normal discrepancies between the different categories of taxpayers will eventually appear.

— Tax table

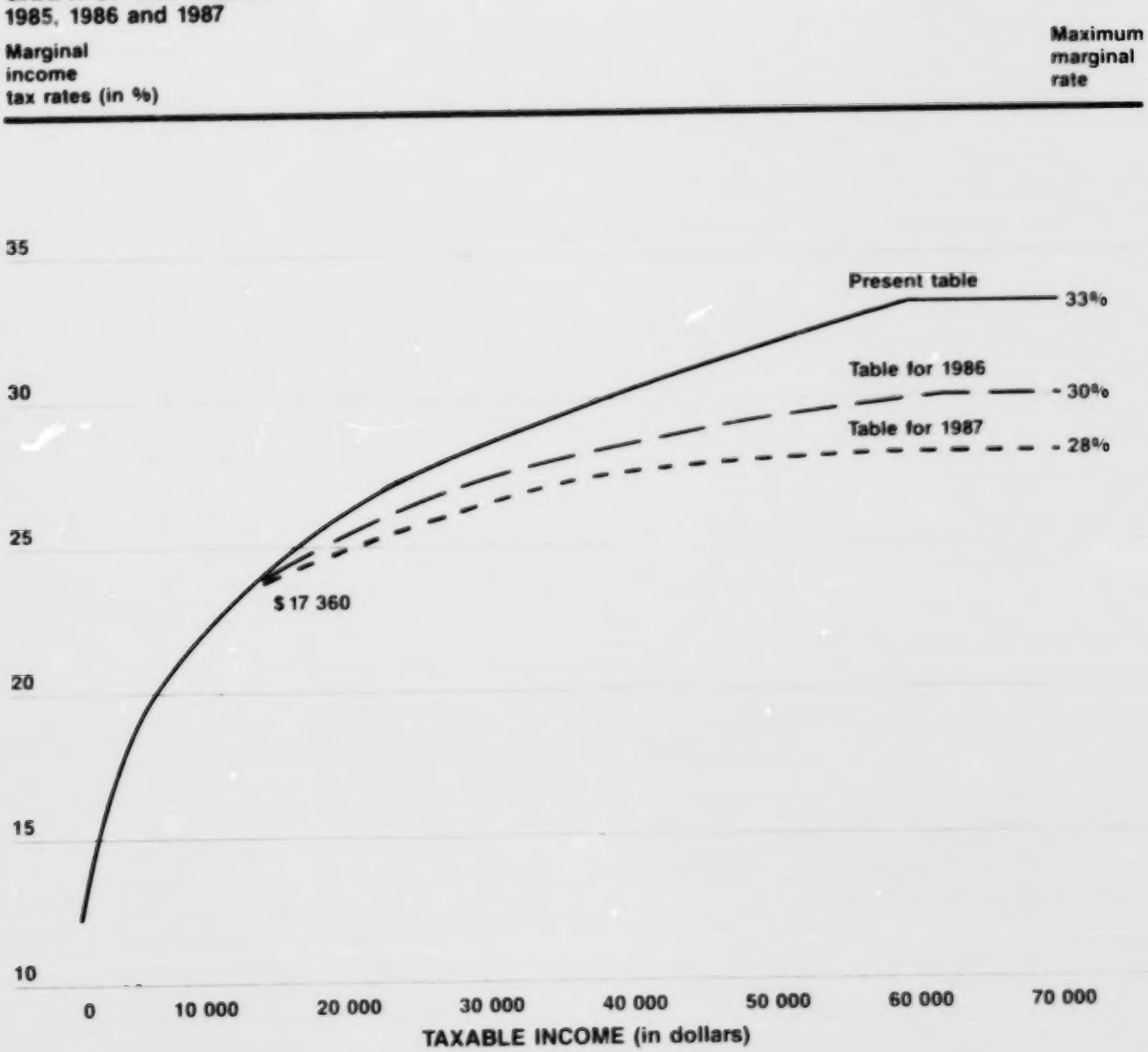
One of the ongoing concerns of the Québec government has been to reduce the tax burden of Québec taxpayers and to bring it more into line with that of neighbouring economies. Between 1977 and 1981, the additional tax burden of individual taxpayers in Québec compared with that in Ontario dropped from 20.1 percent to 8.4 percent. The action taken by the Québec government to cope with the recession, while maintaining an acceptable deficit level, has temporarily made it impossible to reach this objective. Thus, in 1984 the additional individual tax burden of Quebecers compared with that in Ontario remains at 9.0 percent; but this is much better than what prevailed prior to 1976, when basic exemptions were never indexed and the discrepancy with Ontario exceeded 20 percent.

However, taxpayers in the middle or high income brackets are the ones hardest hit. The situation originated in 1982 when the federal government undertook what is now termed the MacEachen reform, which considerabiy reduced the progressivity of the federal taxation curve. This decision also applied to the provinces bound by collection agreements with Ottawa. Québec, attempting to cope with the difficulties of the recession, preferred not to go along as this would have imperiled its financial framework. So, while the maximum marginal rate in Québec was 5.1 percent higher than that in Ontario before the MacEachen reform, this discrepancy went up to 10.1 percent after the reform, and it remains at this level.

I believe we can and must now return to the situation established by our government before the MacEachen reform. Moreover, it is absolutely essential that the Québec tax system become more competitive in relation to what applies in neighbouring economies. Consequently, the tax table should be adjusted to render this objective more feasible.

Therefore, as of January 1, 1986, the Québec tax table will be changed. Marginal rates will be lowered beginning at the level of $17 360 in taxable income. The maximum marginal rate will be reduced from 33 percent to 30 percent in 1986 and to 28 percent in 1987.

GRAPH OF TAX TABLES
1985, 1986 and 1987



— Succession duties

I now wish to bring up a matter that has been endlessly discussed over the past years. I am speaking of succession duties and the tax on gifts.

Succession duties are payable in the majority of OECD countries and in many American States; they normally form part of personal income tax systems that claim to be fair. Through them it is possible, in particular, to recover large sums from taxpayers exempt from tax for whatever reason. At the end of the 1960s, the Carter Commission suggested they be abolished but that the capital gains tax be fully applied. Part of the proposal was implemented during the reform of 1972, by taxing only half of capital gains. Québec has since then been the only province to collect succession duties.

I am therefore announcing the abolition of all succession duties for all successions opened as of midnight tonight. The same is true for the tax on gifts.

— Minimum tax

Finally, Mr. President, we are always quite flabbergasted to discover, when statistics are published, that certain middle and high-income taxpayers, taking advantage of the many tax shelters under our legislation, manage to get off scot-free from the tax viewpoint. This situation is an abnormal one and must now be remedied.

Few of our fellow Quebecers, especially those taxed at source, are prepared to stand by and watch while the most affluent people get away with paying no taxes, while they have access to the same advantages and services from the State.

I am therefore announcing the implementation in Québec, as of January 1, 1986, of a minimum personal income tax, by means of a limitation on the tax shelters that can be used or advantages of all types equal to 40 percent of the modified net income. All taxpayers who claim $20 000 or more under such tax shelters will be subject to this limit. This measure should bring in $30 000 000 and reestablish a strict minimum of fiscal equity for a society such as ours.

— Impact of changes on household income

The impact of the changes announced this evening on the disposable income of the different categories of taxpayers is extremely interesting. Details, by category of income and category of taxpayer, may be found in the Appendix on Fiscal and Budgetary Measures.

I shall confine my comments to certain of their effects compared with the present system. Taxpayers will be the recipients of some $313 000 000 as of the 1986 taxation year; this will go up to $570 000 000 in 1987 and to $765 000 000 in 1988. Families with children will benefit most under the reform, in accordance with the objectives set. In effect, as of 1986 working families with children, which make up 27 percent of Québec households, will be the recipients of 83 percent of the total value of the income tax reductions granted. This is clear evidence that the government attaches the greatest importance to family policy, the main points of which are undergoing vast public consultations at the present time.

Let us now look at things from the point of view of individuals by using a few examples. A single person living alone in an independent dwelling who pays taxes on income beginning at $5 750 under the present system will begin to pay taxes when his income reaches $6 424 as of 1986. A couple without children, with one spouse earning an income, now begins to pay taxes at the level of $10 015 in income; the reform will move this threshold up to $11 824 in 1986. A couple with two children between 6 and 11 now pays taxes beginning at income of $12 367; this level will rise to $14 905 in 1986.

For the average Québec family with two children under 15 and an income of $30 000, taxes will be reduced by $500 for the 1986 taxation year and $612 the following year. From now on, the tax burden of families with children will be equitable.

Gain resulting from the reorganization[1]
For a couple with two children under 12
(in dollars)

Household's employment income	Couple with 2 children under 12 and one employment income only		
	1986	1987	1988
15 000	324	408	516
20 000	251	338	465
30 000	500	612	759
40 000	637	806	964

1 The gain corresponds to a drop in the tax burden which includes the Québec income tax, less tax credits or taxes, tax refunds, family allowances and availability allowances, as well as transfer programs (social aid, WINSUP, subsidy for child care expenses), if applicable.

— The prospects

With respect to economic objectives, reducing taxes will make Québec's taxation system more competitive. The changes in the deduction for child care costs and the increase in the deduction for employment expenses will act as an incentive to work and improve the economic effectiveness of the tax system. All of this will finally result in accelerated economic growth and the creation of jobs.

Other elements of the reform will also contribute to this objective; the introduction of the minimum tax for high-income taxpayers is one of them. The reform of the system of exemptions, deductions and tax credits will enable us to found the equity of the tax system on a more rational basis and ensure that taxpayers do not pay income tax on the portion of their income that is used to meet essential needs.

There remain, however, a number of changes to be implemented before the objectives enumerated at the beginning of this Budget Speech can be achieved. The reorganization of personal exemptions will have to be supplemented by the reform of income security programs in order to provide the strongest possible incentives to work. It will also be necessary to seek greater efficiency in our programs to improve the "employability" of social aid recipients. To this end we shall have to improve and extend our vocational training programs, and the federal government must harmonize its action with that taken by Québec in this domain and channel the funds set aside for this purpose towards Québec. Finally, it will be necessary to define the role of consumption taxes and that of charges for goods and public services more adequately in establishing a more competitive taxation system.

Along other lines, during the past few years, particularly at the time of the recession, our government proposed a number of measures to stimulate and put new life into the economy. The recovery plans made at Mont Sainte-Anne in 1982, and at Compton in 1983, and the various Hydro-Québec rate discount programs are now making their effects felt. Three major aluminum plants are being built at Baie-Comeau, Bécancour and Laterrière, new mines are opening and others are being modernized. Residential construction, under the impetus of the Corvée-Habitation program, is breaking housing start records, the water purification program is in full swing, the fishing industry is on the way to recovery, not to mention the success of the modernization program for pulp and paper mills! All of these represent several billions of dollars in investments and thousands of jobs created and protected because of government action in the economic sector.

But we must remember that we have to thank the SDI and the initiative of my colleague, the Minister of Industry and Commerce, for helping hundreds of business firms, particularly small and medium-sized firms, more than 1 200 in all, by providing them with government support to weather the crisis and then refinance themselves, through the programs known as Biron I and Biron II.

It cannot be repeated often enough that it is our small and medium-sized businesses, in all the regions, which, in good years and in bad, create most of the new jobs our economy needs, very close to 60 percent in 1984.

We must therefore give them greater support by making new forms of financing available to them. In fact, strengthening the financial structure of many of these firms is often necessary before it is possible to contemplate expansion, investment, research and development, job creation or the export market.

Therefore, Mr. President, here is a first set of measures designed for all business firms, including, specifically, the capitalization of corporations. I then intend to announce a second series of measures with a view to stimulating growth and employment in certain specific sectors of the economy.

SUPPORT FOR BUSINESS AND THE ECONOMY

— Strengthening the financial structure of business firms

In order to facilitate public financing of business firms, the largest as well as the small and medium-sized, the government instituted a stock savings plan, and a capitalization assistance program for small firms, administered by the SDI. The latter program was set up on an experimental basis, and it came to an end on April 1, 1985. Last year we established a commission of inquiry with a mandate to examine the capital structure and the financial situation of small and medium-sized businesses and to make proposals to the government with a view to their improvement.

Government action seems to date to have neglected an entire aspect of the question of corporation financing, i.e. external financing of private corporations. As a business grows, several financing stages can be distinguished. First, the promoter finances his business using his own funds, those of his family and funds that he borrows. Then comes the time when he must call upon outside sources of financing without necessarily resorting to the public share market. This second stage is more difficult because the promoter must then share his powers of decision and control, without mentioning the high costs of such an operation.

It is my intention to help these firms at this stage in their development in two different ways. The first consists in promoting the creation of sociétés de placements dans l'entreprise québécoise (SPEQ) and granting them a tax benefit similar to that under the Québec Stock Savings Plan. The tax benefit will consist of a deduction for individuals equal to 100 percent of share capital invested in a small firm by a SPEQ. In the case of a private venture capital firm, the tax benefit would consist of a tax credit equal to 20 percent of the first investment. The tax benefit will be granted for investments up to $1 000 000 per firm. This measure will make it possible for the shareholder to invest in his own business and, in particular, to encourage outside investment in the firm without having to resort to the public share market.

Secondly, in order to help small firms using SPEQs to increase their capitalization and thus ensure their growth, my colleague, the Minister of Industry and Commerce, will soon announce the creation of, and procedures for applying, a new capitalization loan program for firms, which will make possible a capitalization loan from the SDI. From now on, government subsidy programs will have to incorporate criteria respecting the capitalization levels required by recipient firms.

Following the implementation of this new financial vehicle, it will be necessary to redefine the role of SODEQs. To this end, the Minister of Industry and Commerce will shortly table a bill which will abolish all regulations governing their activities as venture capital companies. These new corporations will be allowed, if they so desire and under certain conditions, to make public distributions of shares and benefit from the advantages of the Québec Stock Savings Plan. With respect to SODEQs, which are or will be, private corporations, they may have access to SPEQs. On the other hand, the 25 percent tax credit which has, until now, been granted to the shareholders of SODEQs is now abolished.

One of the final phases in the financing of a developing corporation is the public distribution of shares. The government is already working to support businesses in this regard; it is a question of enhancing established programs. With respect to the capitalization of corporations, studies carried out show, first, that our program of assistance for entry into public markets is overly generous with respect to certain share issues. I am, therefore, announcing the restructuring of the scale of grants offered under this program. Henceforth, the rate will be equal to 20 percent of the first $1 000 000 of the issue, and to 10 percent for the next $2 000 000, for a maximum grant of $400 000. Moreover, to ensure that the program's objective is fully attained, the allowable share must, from now on, be listed on the Montréal Stock Exchange to be eligible for the grant.

All of these measures will undoubtedly foster growth in numerous Québec firms by making accessible to them new sources of financing, and by improving their own capitalization structure.

It remains for me to broach another aspect — and not the least important — of the financing of businesses and the tax advantages arising from it. I am speaking of the Québec Stock Savings Plan.

This program, introduced by our government in 1979, has become increasingly popular; it is estimated that thousands of taxpayers have saved, all told, $440 000 000 in taxes since the program was implemented. In 1984 alone, the estimated cost to the State was about $170 000 000. This is a substantial amount, although it is recognized from the outset that the QSSP has been beneficial, both for businesses and individuals, without neglecting its educational value for many people. It is less certain that the plan today entirely fulfils its initial objectives. First, the tax deduction benefits some taxpayers. Moreover, the funds are received by corporations which, to say the least, are not in dire straits. In 1984, for example, 77 percent of the investments eligible under the QSSP went to corporations with assets of over $1 000 000 000; some of them even had to refuse buyers.

The deduction granted for corporations with assets over $1 000 000 000 has been reduced from 100 percent to 75 percent, then to 50 percent. However, we must go farther still. I am, therefore, announcing that as of the 1986 taxation year, the annual allowable deduction for the shares of corporations with assets over $1 000 000 000 will reach a ceiling of $1 000 per taxpayer, corresponding to share purchases of $2 000. The rate of the reduction for shares of corporations with assets of between $25 000 000 and $1 000 000 000 will be reduced from 100 percent to 75 percent; for those of corporations will assets of less than $25 000 000, the rate of reduction will be reduced from 150 percent to 100 percent. The ceiling on the total deduction will be set at $10 000, rather than $20 000. The purpose of these changes is to facilitate the financing of medium-sized corporations and not, above all, big ones, as the latter experience much less difficulty in launching public distributions of shares.

To enable investors to reduce their risks, they may set up QSSP investment partnerships as of tomorrow. Deductions will be claimed by members proportionate to their participation in the investment partnership; the extent of the partnership's investments will enable it to attenuate its risks at little cost.

Similarly, although on another scale, there is every reason to envisage the possibility of allowing the establishment of QSSP investment funds, or investment funds managed by professional managers which could, moreover, instigate and promote public or private financing projects. The elaboration of rules governing QSSP investment funds seems much more complex. It appears advisable to study the entire question in greater detail before authorizing the establishment of such funds. Consequently, they will be studied in greater detail and consultations will be carried out in this respect in the coming months before they are introduced on January 1, 1986.

Last year, we submitted to the cooperative movement a project respecting a cooperative investment plan. Following consultations in this regard, we are now in position to proceed with this project. I am, therefore, announcing the implementation of a cooperative investment plan intended for production, processing and workers' cooperatives. Members and employees of such cooperatives will be able to benefit from a tax advantage, as is the case with respect to the Québec Stock Savings Plan. They will be able to deduct from their income the purchase of preferred shares in their cooperatives.

A final program will be added to the previous ones; it is directed to private and public corporations. Indeed, I feel it is necessary to encourage employees to take an interest in the firms for which they work, by fostering the purchase of share capital in them. To this end, the government will modify the tax treatment of call options on shares granted by corporations to their employees. Recipients of such call options on shares will no longer be obliged to include in their taxable income the difference between the value of the share at the moment the call was made the price paid to accquire the share. This difference in value will only be taxed at the time of the call as a capital gain, i.e., only at 50%.

With this array of means made available to them, our small and medium-sized firms should finally be able to better restructure themselves financially.

The new SPEQs, loans for capitalization, the changed SODEQs, assistance for stock market listing, the modified Stock Savings Plan, the QSSP investment partnerships, the QSSP investment funds, the cooperative investment and profit-sharing plan for workers — this is now a much more complete array of means, and it is hoped that a maximum of benefits will be drawn from it. Under this Budget, it is firmly resolved to support the growth and expansion of our business firms and especially our small and medium-sized businesses.

Mr. President, I would now like to discuss a second series of measures which more directly affect certain sectors of the Québec economy.

— People working abroad

Within the framework of the taxation powers we have, I wish to introduce two new fiscal measures designed to assist businesses directly involved in exporting. First, the definition of the types of firms whose employees working abroad are exempted from income tax will be broadened. At present, the employees of companies involved in natural resource development, engineering, office automation, teleprocessing and data processing benefit from such an exemption. As of this evening, the definition will be broadened to include firms providing scientific and technical services and management and administrative services related to any of the firms and activities covered by this measure.

— International Financial Centre in Montréal

The possibility of establishing an international financial centre in Montréal has been under discussion for several years. Up until now, progress has been hindered, above all, by the unwillingness of the previous federal government to contribute to the project.

It strikes me that it is necessary for the gouvernement du Québec to take action. The main advantage of establishing an international financial centre in Montréal is that it would attract financial transactions which are currently carried on elsewhere; above all, it would strengthen the city's position as a pivotal point for the growth of the entire Québec economy. To enable Montréal to become a veritable international financial centre, I am announcing the following fiscal measures. First, for financial institutions and other agencies operating an international financial centre, the tax on capital, income tax and employer contributions to the Health Services Fund will be abolished. The employees of an international financial centre who have not resided in Canada prior to working for the Centre will be exempt from income tax during the first two years of their employment in Québec. Moreover, the employees of such centres will be exempt from income tax on their allowances to a maximum of 50 percent of their wages. These measures will come into effect on January 1, 1986.

With the announcement of these specific measures, I believe that an international financial centre in Montréal will soon become a reality. Financial transactions which are currently effected on the New York, Paris, London, Tokyo or Zurich financial markets will soon be carried out in Montréal. This measure should produce substantial spinoff, and make Montréal better known in international financial circles.

— Improvement of mining taxation

The mining sector in Québec, and elsewhere, is slowly recovering from the effects of the last recession. However, in Québec it has benefited a great deal from a program for accelerating private investments implemented by the government in the spring of 1983. Under the program, 17 mining projects were launched, including the exploitation of new deposits, modernization and expansion, which entailed investments of nearly $550 000 000. In 1984, investments in the mining sector increased by 14.9 percent in Québec, compared with 8.6 percent in Ontario, and 0.3 percent in Canada as a whole. We feel that taxation should now contribute more to the industry's recovery.

To this end, I am announcing a reduction in, and a reorganization of, mining duties; such duties, which currently vary between 15 percent and 30 percent, according to profits, will immediately be established at 18 percent. The rate scale applied to mining operations was initially intended to be progressive, but is now obsolete. The basic exemption of $250 000 will become a $90 000 credit which may be carried over subsequent years.

With a view to assisting companies incurring exploration, development and capital expenditures, I am announcing the implementation of a negative mining duties scheme, under which companies will be immediately compensated for losses through refunds generally equal to 18 percent of losses resulting from their exploration, development or part of their capital expenditures incurred after midnight tonight.

The additional 66$^{2}/_{3}$ percent allowance for exploration expenses incurred in Québec, which was to end December 31, 1985, will be extended for two years, with respect to costs incurred by a person who does not receive income from operating a mine.

— Measures designed to encourage farming

The development of the farming industry constitutes one of the major preoccupations of this government, as has been very clearly shown by the action taken since 1976. Farming has a privileged place in Québec's economy and an all-out effort must be made to ensure its development.

Taxation must be adjusted to take into account the special nature of the mode of operation of farm undertakings, and not the opposite. For this reason, I am announcing tonight a measure which will make it possible for farm undertakings to benefit from the same advantages as incorporated firms.

Small farm undertakings in Québec with a single owner are gradually disappearing to make way for truly dynamic small firms organized in corporate form. This type of organization has several advantages, including the facility of sharing income and the increase in value of the undertaking between the members of a family or partners who participate in the undertaking. In order to encourage this type of organization, which corresponds to the operation of farm undertakings, and to facilitate the transfer of farm undertakings from one generation to the next, people for whom farming constitutes the main source of income will pay no tax on capital on their first $300 000 of paid-up capital, except for a minimal tax of $50. This measure will enable farmers to choose the vehicle which best suits their undertaking, without having the tax on capital guide them in their decision.

— Measures designed to encourage private woodlands

With respect to forest operations, property taxes are an important element in production costs. The recent consultation on the future of private woodlands highlighted a major shortcoming in the current property tax system as it applies to the owners of private woodlands, some of whom are also farm producers. This entitles them to the property tax refund. Other owners are only covered by the general 2 percent ceiling on rates, and the maximum of $375/hectare for farms and woodlands on their taxable value. The current tax system also aggravates the problem of wood shortages, insofar as it is in the interest of timber producers not to develop their woodlands — indeed, even deforest them — to reduce their tax burden.

To rectify this situation, I am announcing the introduction of a property tax refund program intended for timber producers, which will correspond to 85 percent of property taxes on productive assets. On the other hand, timber producers will no longer be entitled to either of the exemptions mentioned earlier. Only timber producers engaged in managing and developing their woodlands and possessing a certificate issued for this purpose by the ministère de l'Énergie et des Ressources will be eligible for the program, which will be administered by the ministère du Revenu and comes into force immediately. Timber producers will be able to claim in the 1986 income tax returns refunds on municipal taxes paid for 1985. It is estimated that this measure will cost $9 000 000 per year. In the coming year, the possibility and the utility of extending this program to farm producers themselves will be studied, following consultation with the various interested parties.

— Clarification of local taxation of businesses

With the implementation of the reform of municipal taxation in 1980, it was decided to restrict the scope of the exemption of the property tax for industrial machinery in order to limit the exclusions provided in the assessment roll to machinery, equipment and their accessories used primarily for industrial production or farm operations. However, the application of the Municipal Taxation Act in this field has led to problems of interpretation. Recent decisions by the Bureau de révision de l'évaluation foncière oblige us to solve this problem, and clarify the fiscal status of property used for industrial purposes. The Act will, therefore, be amended by this summer in order to clarify the fiscal situation of businesses, in keeping with the spirit of the 1980 reform, in time for submission of the next assessment rolls in September 1985.

— Government corporations

I would be remiss, Mr President, if I did not take a few moments in the course of presenting this Budget Speech, to take stock of the question of government corporations operating in the industrial, commercial and financial sectors. Their activities account for a considerable part of Québec's GDP.

At the beginning of this Speech, I mentioned more effective use of our human, natural and financial resources. When government investments are concerned, i.e., ones derived from various taxes, Quebecers are quite rightly entitled to expect a return on such investments.

Over the years, government corporations have played an essential role in sustaining the action of the government in carrying out its economic mission. A very important network of businesses and industries has been developed, which generates funds for the government of about $3 500 000 000 at present, except for Hydro-Québec. The resources which the State is increasingly called upon to invest in order to stimulate economic development are enormous, although its finances are, as we all know, more limited. It is urgent to launch a thorough reassessment of the State's role in its own enterprises.

The strategic utility of certain government corporations has declined in recent years, to the extent that we may now ask ourselves if it is advisable to maintain the financial resources allocated to them. The government may simply recover part or all of the funds invested in order to achieve other goals. It goes without saying that these assets can only be sold provided the government obtains a fair value for them.

It would obviously be in the interest of other corporations to associate themselves with, or increase their association with, private concerns operating in the same areas in order to establish major consortiums, profit by substantial economies of scale, gain access to more extensive self-generated funds, and obtain public financing, thereby playing a greater role in the Québec economy while reducing government expenditure.

Similarly, a number of government corporations could take advantage of more diversified sources of financing by entering the share market. The government could make accessible to the public preferred and common shares of some of these corporations with the most solid performances. Such initiatives will be encouraged.

Numerous corporations operate in the same spheres of activity. For example, two corporations are involved in transportation, and five in assisting the financing of businesses. These corporations will be assessed to determine whether or not it would be advantageous, financially and administratively, to combine them. Three other corporations are engaged in industrial promotion and are firmly established at the local or regional level. Discussions will be undertaken shortly with all the concerned parties to make possible the transfer of responsibility for these corporations to local or regional communities.

Within the framework of these orientations, which must be achieved with the collaboration of the Ministers responsible, I am announcing today that the Société des alcools du Québec will begin in the coming months to sell its network of retail stores. The Minister of Industry and Commerce will soon announce the details of this project aimed at ending government involvement in a sector where its presence is no longer necessary, thereby enabling to allocate its resources to other purposes. This specific project will, obviously, offer a guarantee of employment to all employees already benefiting from job security.

Today, Hydro-Québec is Canada's biggest non-financial corporation, in terms of assets, which have increased from $200 000 000 in 1944, when it was established, to $27 000 000 000. It is also the biggest electrical production, transmission and distribution company in North America.

Major construction on the La Grande River has, in recent years, cost $15 000 000 000 and added 10 000 megawatts to Hydro-Québec's installed capacity, to satisfy Quebecers' needs, while succeeding in keeping its rate increases since 1983 to the lowest level in two decades, thanks to its sound management and the competence of its directors, managers and employees. During the next decade, Hydro-Québec will invest some $20 000 000 000 to satisfy our energy needs, first and foremost for Quebecers, and to maintain for Québec an extraordinary competitive asset, but, above all, to maintain an advantage for businesses established in Québec.

Hydro-Québec has, for a long time, demonstrated its technological expertise, especially in the fields of high-voltage transmission and research on hydrogen, in particular. Several years ago, the corporation began to broaden its mission in terms of energy exports to other provinces and the U.S. and with regard to its involvement in the development of industrial technologies using electricity, by associating with various partners, including private firms, in making substantial investments.

Hydro-Québec is in the major leagues; it seems to me that the time has come to involve Quebecers to a greater extent in this important firm, not only as customers, suppliers or lenders, but also as shareholders. Under current legislation, Hydro-Québec's only shareholder, the Minister of Finance, will transform part of the capital he holds to enable Quebecers to buy preferred shares in the corporation. I am announcing my intention to submit to the National Assembly a bill amending the Hydro-Québec Act in order to change the classes of the corporation's shares and make possible the sale of preferred shares in this great government corporation. We should specify that this decision will in no way affect either the financial position or the financial ratios of Hydro-Québec.

I would like to conclude this section by emphasizing the importance of a sound assessment of the role played by government corporations. The importance, in budgetary terms, of a number of them has probably led to this degree of awareness. There is no question of delivering a sweeping verdict on all these corporations, as some would like us to, but of ensuring choices made during the last quarter of this century are viable under today's conditions. Québec's economy has matured and become more dynamic. Today, there are partners in the private sector capable of replacing the State, or of association with it in several sectors. A review of the objectives of government corporations will take this into account.

— Establishment of the Resource Development Fund

It may well be wondered how the government intends to use the financial resources derived from the sale of shares or the disposal of assets it owns, especially in the natural resources sector. Let us remember, first of all, that the government already benefits directly from several sources of income in this sector. Let us mention mining duties, hydraulic royalties, stumpage dues and dividends received from Hydro-Québec, all of which are evaluated at $250 000 000 this year. These revenues will surely increase significantly during the years to come, especially because of the anticipated increase in Hydro-Québec dividends.

With a responsible attitude with respect to the management of the heritage of our natural resources, most, if not all, of the revenues collected by the State in this sector would be reinvested and, as a priority, in the natural resources sector. Not only might such a policy ensure the perpetuation and growth of the advantages of natural resources for the Québec economy, but it would also make it possible to develop even more fully our regions which must count on this sector of our economy.

It is in this perspective that I am announcing this evening the intention of the government to create, as of the current fiscal year, the Resource Development Fund. This new fund will make it possible to devote to the maintenance, development and processing of Québec's resources the increasing revenues the State receives from this sector, from exploitation and development as well as from production. It will also make it possible to guarantee the redirection of the assets held by the government in government corporations towards new investments in this same activity sector.

With a view to giving concrete form to this intention, a bill will be tabled soon in the National Assembly. In the Appendix on Fiscal and Budgetary Measures, the elements of the operational framework proposed for the operation of the Resource Development Fund to which more than $2 500 000 000 will be conveyed during the next five years.

— Attaining our objectives

The measures announced this evening, in particular that creating the Resource Development Fund and those with respect to Québec businesses, in addition to providing substantial assistance to a number of industrial sectors, draw us closer to the objectives which I announced at the beginning of the Budget Speech. These measures will foster the development of efficient financial markets in Québec, strengthen the financial structure of Québec companies and, as a result, ensure the broadest possible development of Québec entrepreneurship. They will facilitate exporting in a number of industries and the tax advantages granted to the mining, agricultural and forest industries should also enable businesses to envisage investments which will create jobs.

EQUALIZATION

But, Mr. President, when federal transfers are expected to go from nearly 30 percent of all budgetary revenue in 1983-1984 to 26 percent next year, it is impossible to balance the budget without increasing taxes. In 1983-1984, federal transfers totalled $6 337 000 000; the following year $6 393 000 000. For the coming year, they are expected to reach $6 520 000 000, an annual average increase of only 1.3 percent.

This situation is mainly attributable to changes made in the fiscal arrangements imposed on the province by Ottawa in 1982. Inadequate rules governing fiscal arrangements between the federal and provincial governments have caused the problems experienced by Québec, in particular with regard to equalization.

Indeed, the federal government of the time unilaterally modified the rules for calculating equalization and, despite the introduction of a transitional guarantee formula, Québec found itself the only losing province following this change made to the equalization program. The estimated loss for Québec is major and, for the five years of the current fiscal arrangements, amounted to $760 000 000, while the other recipient provinces will profit by an overall gain of $440 000 000. The granting to Québec of an arbitrary payment of $110 000 000, recently announced by the federal government, only slightly remedies the situation, leaving a net loss for Québec of $650 000 000 for the 1982-1987 period, while the other recipient provinces gain $615 000 000; some transfer! The graph shows this clearly. For 1985-1986, Québec's equalization entitlements will drop by $183 000 000 as compared with their 1984-1985 level.

As has been indicated in Appendix III of the Budget Speech, Québec is demanding the immediate continuation of discussions with a view to reaching a reasonable, fair compromise concerning 1985-1986 and 1986-1987 equalization payments. Moreover, in future, we will propose that fiscal arrangements between Ottawa and Québec be covered by a formal agreement between them.

OTHER MEASURES

Financing the reorganization of personal income tax to make our tax system more equitable, particularly for families with children, the programs announced to support economic growth and employment and, finally, the maintenance, among our citizens who demand it, a high level of services, especially in the areas of health and education, have made it impossible for the government to maintain the present tax burden; this is reflected in the measures I am about to announce.

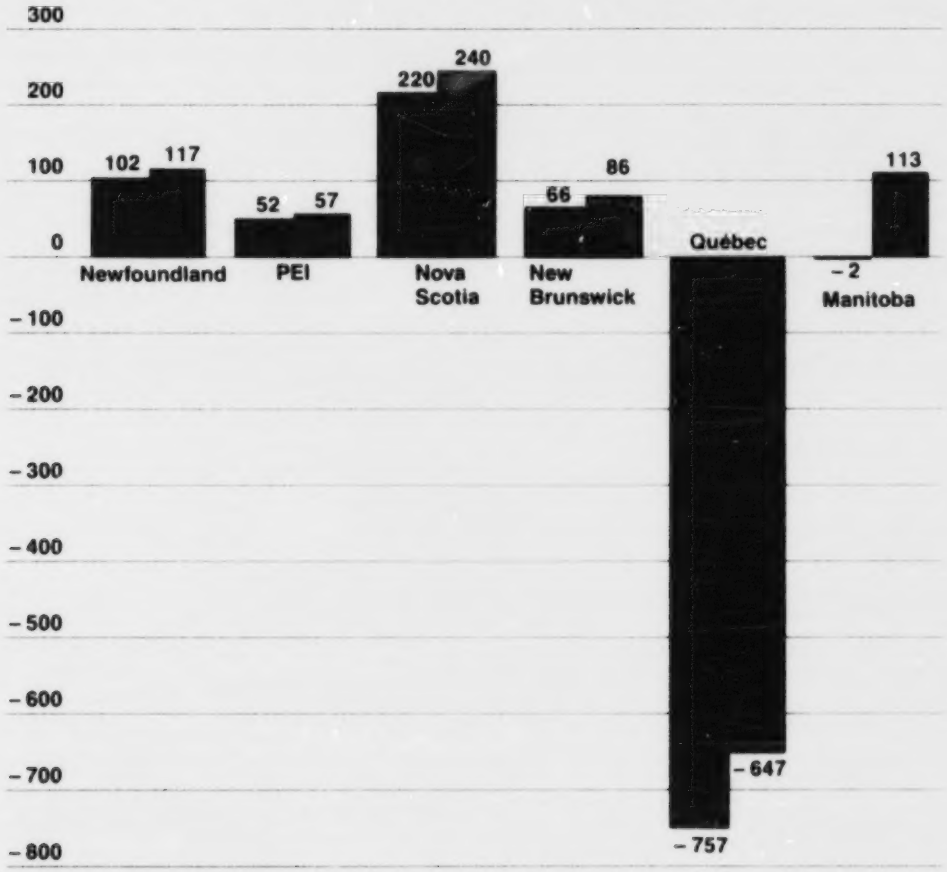
— Tobacco tax

The tobacco tax is still lower in Québec than that in Ontario and several other provinces, while health care costs continue to rise. It strikes me that this is a field where the principle of charging users can readily be applied. As of midnight tonight, the rate of tax on tobacco will increase from 55 percent to 60 percent. With respect to cigarettes, the method of calculating the tax will be modified, to bring it into line with that in other provinces. From now on, the rate of the tax will apply to the average sale price of a pack of 25 cigarettes rather than to the price of those sold in cartons. The total increase represents $0.25 per pack of 25 cigarettes. Following this increase, the method of compensating agents will have to be negotiated with them by the ministère du Revenu, in order to bring such compensation into line with that prevailing elsewhere. This measure will increase the contribution of smokers to the financing of government expenditures by $133 000 000 this year.

— Sales tax

Various goods and services currently escape the sales tax for no apparent reason. Generally, an attempt has been made through exemptions to avoid collecting the tax on goods

GRAPH I: CUMULATIVE GAINS OR LOSSES (–) RESULTING FROM THE REPLACEMENT OF THE 1977-1982 EQUALIZATION FORMULA BY THE NEW FORMULA (in millions of dollars)



Source: Ministère des Finances du Québec

Before additional payments

After additional payments

considered essential, in order not to penalize the least privileged members of society, who must allocate most of their income to such essential goods. It is for this reason that the government introduced exemptions on shoes and clothing, and on furniture. Moreover, the exemption is occasionally intended to protect or stimulate a specific sector of the economy: this is the goal we had in mind in abolishing the tax on the sale of natural gas. In some instances, such justifications can obviously not be invoked.

As of midnight tonight, a number of goods and services will be subject to the sales tax. The most important among them are all types of insurance premiums paid by Quebec residents and people doing business in Québec. To avoid the dual taxation of savings, the portion of premiums which represents savings will be exempted.

Other goods and services which will be subject to the sales tax are food for house pets, the sale and rental of films and videocassettes, collectors' coins and stamps, and shrubs, trees and other plants. By making the tax system fairer and collecting an additional sum of about $425 000 000 in 1985-1986, the government will be better able to balance its finances.

— The taxation of oil refining companies

The Québec tax system includes a very special 2 percent tax which applies solely to corporations engaged in refining oil in Québec, i.e., the additional tax on the paid-up capital payable in Québec of corporations engaged in refining. The gouvernement du Québec had to raise this tax substantially in 1980 as a number of refining companies were avoiding paying their fair share of the tax by transferring profits from their establishments to other provinces in Canada.

Since the increase, several corporations which sell petroleum products in Québec have succeeded in avoiding the tax, so that corporations refining oil in Québec are penalized in relation to those engaged in refining elsewhere. This evening, I am announcing measures to redistribute the proceeds of this tax to all refining corporations which sell petroleum products in Québec.

— Ferry tolls

Last year, the government announced the gradual abolition of tolls on the autoroutes. According to the current timetable, such tolls will have completely disappeared by September of this year. Quebecers traveling to islands in the St. Lawrence River, that is, Île-aux-Coudres and Île-aux-Grues, are obliged to pay a toll every time they travel to the islands or the shore to use the rest of Québec's road and autoroute network. To eliminate discrimination in this realm, I am announcing the abolition of tolls on government ferries which provide service to islands in the St. Lawrence. Moreover, the cost of annual passes will be abolished on all other boats operated by the Société des traversiers du Québec, as of midnight tonight.

— Miscellaneous measures

The nature of the present economic recovery is not of equal benefit to all regions of Québec. It is essential that measures be taken to stimulate regional economic development and to accelerate job creation in the regions. To this end, I am announcing this evening that $12 000 000 will be added to the amount already provided for the regional development fund. It will also be recalled that our government had injected additional funds for municipal roads during the last two years, for the purpose of creating jobs in the municipalities. This year again, I feel it is advisable to add $10 000 000 to the amounts already provided for this purpose. Finally, an additional $7 000 000 will be granted to the ministère du Loisir, de la Chasse et de la Pêche, that is, $3 000 000 for the development of regional parks and $4 000 000 for the Archipel project.

Various other measures related to taxation are outlined in the Appendix respecting fiscal and budgetary measures, which is an integral part of the Speech.

FINANCIAL FRAMEWORK

On the basis of the economic prospects discussed at the beginning of this Speech, and in light of the fiscal and budgetary measures I have just announced, an attempt to rebalance public finances has been greatly accentuated by this Budget and the projected financial framework for 1985-1986 is as follows:

STATEMENT OF FINANCIAL TRANSACTIONS, 1985-1986
(in millions of dollars)

1. **Budgetary transactions**		
Own-source revenues	+24 155	
Expenditure	−27 250	
Deficit		−3 095
2. **Non-budgetary transactions**		
Investments, loans and advances	+ 120	
Retirement plans account	+ 1 335	
Other accounts	+ 40	
Surplus		+1 495
3. **Net financial requirements**		−1 600
4. **Financing**		
Change in cash position	—	
New borrowings	+ 3 140	
Less: Repayments of borrowings	− 1 540	
Total		+1 600

The expenditures forecast by the Chairman of the Conseil du trésor when the Estimates were tabled last month totalled $27 250 000 000, an increase of 6.8 percent in relation to the previous year. However, if account is taken of the effects of anticipating expenditures in 1983-1984, totalling $431 000 000, the increase is only 5.1 percent and reflects stringent control of expenditures.

The probable expenditure announced by the Chairman of the Conseil du trésor was established on the basis of budgetary appropriations of $27 400 000 000 and the government's objective of managing the expenditures for the current year with vigilance, in order to obtain net lapsed appropriations of $150 000 000. This objective is maintained, so that the additional expenditures which will result from the measures I have just announced will be financed from the recycling of the lapsed appropriations which will be freed over and above the original objective.

In light of growth in federal transfers of only 2.0 percent for 1985-1986, it was necessary to adopt fiscal measures which raise the increase in the government's own-source revenues to 10.6 percent, which represents more than one-and-a-half times the nominal growth in the economy. This shows how detrimental are the changes in federal government transfers received by Québec, especially with respect to equalization payments.

Nonetheless, increases in own-source revenues will allow the government to slightly reduce the deficit, from $3 175 000 000 in 1984-1985, to $3 095 000 000 in 1985-1986. I would like to mention that, as a percentage of the GDP, the deficit has dropped from 4.1 percent in 1980-1981 to 3.0 percent this year.

At the same time, non-budgetary transactions continue to yield growing surplus. Thus, after dropping from $2 221 000 000 to $2 006 000 000 between 1983-1984 and 1984-1985, the government's net financial requirements will fall sharply in 1985-1986, to $1 600 000 000. If such borrowings are compared with an indicator of our ability to repay them, i.e., domestic output, it must be noted that, between 1980-1981 and 1985-1986, the proportion of net financial requirements in GDP decreased from 3.3 percent to 1.5 percent.

However, I do not feel that it is necessary to stop there. The Appendix, Medium-Term Perspectives of the gouvernement du Québec's Financial Situation, outlines the government's intentions in this respect over the coming three years. These prospects are based on the fiscal plan which I announced to reduce personal income tax. Moreover, they imply pursuing efforts at rationalizing budgetary expenditure which have occurred for several years.

CONCLUSION

The State has become an extremely powerful instrument for ensuring the economic and social development of Québec. The health of government finances are the most vital condition for its efficient operation. Bearing in mind that, in the 1985-1986 budget estimates, $3 502 000 000 is allocated to covering interest on debt incurred by the government and its dependent institutions; that, of $1 605 000 000 paid by the government into pension plans, $360 000 000 is used to amortize past debt and $734 000 000 is allocated to cover interest on the balance of the account; that $144 000 000 is used to amortize deficits identified at the end of the 1970s in the education and social affairs networks; that $66 000 000 is allocated to Sidbec; and that $124 000 000 in fiscal revenues must be devoted to covering the Olympic deficit, this represents one dollar in three of taxes collected in Québec. It is clear to what extent the weight of the past can mortgage a budget.

Not only has our government assumed liabilities from the past, it is in the process of liquidating them. However, we have no intention of mortgaging the future. At a time when the economy is experiencing an upturn and with the improvement in government finances, it is appropriate, without neglecting urgent questions of the moment — in particular, job creation — to also focus our attention on the challenges confronting us in the coming years.

In this Budget Speech, I have tried, Mr. President, to indicate how we intend to build the economic and social future of Québec; I believe that the measures announced will help us achieve our objectives. Thus Québec will continue to grow and to carve out its rightful place in society, despite the difficulties of this world in the midst of in-depth change. All the men and women of Québec will, I am convinced, know how to meet the great challenge of excellence, and this Budget is an attempt to support their efforts. Thank you, Mr. President.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
1985-1986 ESTIMATES
(in millions of dollars)

1. Income and property taxes	
Personal income tax	7 730
Employers' contributions to the Health Services Fund	1 600
Corporation taxes[1]	1 049
Succession duties	28
	10 407
2. Consumption taxes	
Retail sales	3 162
Fuel	1 112
Tobacco	530
Meals and hotels	326
Others[2]	119
	5 249
3. Duties and permits	
Motor vehicles	280
Alcoholic beverages	71
Natural resources[3]	114
Pari-mutuel	31
Other duties and permits	71
	567
4. Miscellaneous revenue	
Sale of goods and services	157
Interest	257
Fines, confiscations and refunds	112
	526
5. Transfers from government corporations	
Société des alcools du Québec	430
Loto-Québec	300
Other government corporations	156
	886
Total own-source revenue	**17 635**
6. Government of Canada transfers	
Equalization	2 940
Other transfers related to fiscal arrangements	1 962
Contributions to welfare programs	1 211
Other programs	407
Total Government of Canada transfers	**6 520**
Total budgetary revenue	**24 155**

1 Includes tax on corporation profits, on capital and on insurance premiums.

2 Includes tax on telecommunications and broadcast advertising.

3 Includes forest, mining and water resources.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE[1]
1985-1986 ESTIMATES
(in millions of dollars)

Budgetary appropriations by department	
Affaires culturelles	163.4
Affaires municipales	685.4
Affaires sociales	5 941.3
Agriculture, Pêcheries et Alimentation	524.6
Assemblée nationale	56.9
Commerce extérieur	24.4
Communautés culturelles et Immigration	46.0
Communications	207.0
Conseil exécutif	46.9
Conseil du trésor	16.8
Éducation	4 765.3
Énergie et Ressources	353.1
Enseignement supérieur, Science et Technologie	2 309.9
Environnement	166.2
Finances	2 901.0
Habitation et Protection du consommateur	393.2
Industrie et Commerce	305.0
Justice	716.0
Loisir, Chasse et Pêche	207.6
Main-d'oeuvre et Sécurité du revenu	2 869.9
Agency under the authority of the Minister responsible for Regional Development and Roads	32.4
Agency under the authority of the Minister responsible for Citizen Relations	36.9
Agencies under the authority of the Minister responsible for the Status of Women	75.3
Agencies under the authority of the Minister responsible for Administration	871.0
People designated by the National Assembly	34.2
Régie de l'assurance-maladie du Québec	1 576.6
Régie des installations olympiques	5.0
Relations internationales	54.1
Revenu	244.0
Tourisme	69.1
Transports	1 674.2
Travail	27.1
Total	**27 400.0**
Plus: additional expenditures announced in the Budget[1]	**49.5**
Less: anticipated lapsed appropriations	**199.5**
Total probable expenditure	**27 250.0**

1 Additional transfers related to changes in personal income tax	10.0
Capitalization of business firms	4.0
Sales tax on insurance premiums	5.5
Compensation for the abolition of ferry tolls	1.0
Regional development fund	12.0
Archipel project	4.0
Development of regional parks	3.0
Municipal roads	10.0
	49.5

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
1985-1986 ESTIMATES
(in millions of dollars)

1. Investments, loans and advances		
Enterprises of the gouvernement du Québec		
Share capital and invested capital:		
Sidbec	—	
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 20.5	
Société générale de financement (SGF)	– 32.0	
Société nationale de l'amiante (SNA)	– 25.0	
Société québécoise d'exploration minière (SOQUEM)	—	
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	– 4.0	
Société québecoise d'initiatives pétrolières (SOQUIP)	—	
Other	– 51.1	
		– 132.6
Loans and advances:		
Office du crédit agricole du Québec	+ 160.1	
Sidbec	+ 2.0	
Société d'habitation du Québec (SHQ)	+ 12.7	
Société immobilière du Québec (SIQ)	+ 147.0	
Other	– 24.9	
		+ 296.9
Total enterprises of the gouvernement du Québec		+ 164.3
Individuals, corporations and others		– 44.3
Total investments, loans and advances		+ 120.0
2. Retirement plans account		
Employer and employee contributions	+ 1 795.0	
Benefits and other payments	– 460.0	
Total retirement plans account		+ 1 335.0
3. Other accounts		**+ 40.0**
Total non-budgetary transactions		**+ 1 495.0**

N.B.: A minus (–) sign indicates a financial requirement and a plus (+) sign, a source of financing.

APPENDIX A
Fiscal and Budgetary Measures

1. Personal Income Tax

— Changes in exemptions, deductions and tax credits A-5
- Basic personal exemption A-5
- Married person's exemption A-6
- Exemption for dependent children A-6
- Exemption for other dependents A-7
- Additional exemption for dependent children engaged in post-secondary studies A-8
- Age exemption A-8
- Special exemption for a person living alone in a dwelling A-8
- Exemption for heads of single-parent families A-8
- Equivalent of the married person's exemption A-9
- Deduction for general employment-related expenses A-9
- Deduction for child care expenses A-9
- General deduction of $100 for medical expenses and charitable donations A-9
- Property tax credit A-10
- Consumption tax credit A-11
- Zero tax threshold A-11

— Changes in the tax system as it applies to middle and high-income taxpayers A-18
- Tax table A-18
- Limit on tax expenditures (minimum income tax) A-21

— Abolition of succession duties and the gift tax A-22

— Québec Stock Savings Plan A-23

— Impact of the reorganization in personal income tax A-24
- On the tax burden of different types of households A-24
- On the tax burden of certain typical households A-26
- On high-income households A-28
- On the government's financial framework A-31

2. Measures Designed to Foster the Growth of Québec Business

— Capitalization of corporations A-32
- The call for private share capital A-32
  - Establishment of Sociétés de placements dans l'entreprise québécoise (SPEQs) A-32
  - Extension of QSSPs to include venture capital companies A-34
  - Deregulation of SODEQs A-34
- The public distribution of shares A-34
  - Financial assistance program for the capitalization of corporations A-34
    - Extension of the program A-34
    - Technical modifications A-35
  - Québec stock savings plan A-35
    - Changes in rates of deduction A-35
    - Reduction in the ceiling of eligible contributions to the QSSP A-36
    - QSSP investment partnership A-36
    - QSSP investment funds A-37
    - Impact on the cost of the QSSP A-37
- Stock options granted to employees A-38

— Cooperative investment plan A-38

— Broadening of the deduction for Quebecers working abroad A-40

— Measures to encourage the development of an international financial centre in Montréal ... A-40
— Improvement in the tax system as it applies to mining ... A-41
— Tax privileges applying to farms and woodlands ... A-44
— Clarification of municipal taxation of businesses ... A-44

3. Hydro-Québec ... A-46

4. Establishment of a Resource Development Fund ... A-47

5. Tax on Capital

— Agricultural corporations ... A-48
— Oil refining companies ... A-48

6. Consumption Taxes

— Tobacco tax ... A-49
— Retail sales tax ... A-49
• Insurance premiums ... A-49
• Collectors' coins and stamps ... A-50
• Sale and rental of films and videocassettes ... A-50
• Food for house pets ... A-51
• Goods intended to correct a physical impairment ... A-51
• Goods purchased by Indians ... A-51
• Goods imported into Québec for use or consumption ... A-51
• Sales of trees, shrubs and other plants ... A-51
• Refunds with regard to the federal sales tax ... A-52

7. Miscellaneous Measures

— Interest on loans to purchase automobiles ... A-52
— Certain transfer programs and the notion of total income ... A-52
— Duties payable by foreign delegations ... A-53

8. Concordance with Federal Tax Legislation and Regulations ... A-54

1. PERSONAL INCOME TAX

The reorganization of personal income tax pursues two main objectives. First, it is designed to ensure that taxpayers do not pay any tax on income which is allocated to satisfying their essential needs and to expenses related to employment. In this respect, changes in various exemptions, deductions and tax credits will increase the minimum income at which a taxpayer begins to pay tax.

Second, the changes are aimed at making the Québec tax system more competitive for middle and high-income earners. To achieve this end, a new tax table reduces the highest marginal rates; succession duties and the gift tax are being abolished. Moreover, changes are introduced to the Québec Stock Savings Plan, and a minimum income tax is established.

CHANGES IN EXEMPTIONS, DEDUCTIONS AND TAX CREDITS

Under an income tax system, the portion of a taxpayer's income used to satisfy his recognized essential needs and those of his dependents must not be taxed. The following table illustrates, with respect to a number of typical households, changes anticipated in the expenses related to such essential needs for the 1985 to 1988 taxation years.

The level of these needs was determined on the basis of the findings of a study on essential needs carried out by the Ministère de la Main-d'oeuvre et de la Sécurité du revenu in 1983; their level was adjusted to the cost of living and according to the forecasts for the years to come. They include short-term and long-term essential needs as well as less essential needs, as explained in the White Paper on the Personal Tax and Transfer Systems.

To ensure that a taxpayer and his dependents' exemptions correspond to the level of these needs, a complete change in exemptions, deductions and tax credits is being introduced. The amounts are established for the 1986 to 1988 taxation years and will correspond exactly in 1988 to the level of essential needs outlined in the following table.

Basic personal exemption

The current $5 280 basic personal exemption exceeds an individual's expenditures for essential needs, which will total $4 920 in 1986. To avoid penalizing taxpayers, the basic personal exemption will be maintained at $5 280 until 1988, i.e., until the expenditures required to cover an individual's essential needs have reached that level.

Essential needs and exemptions[1] according to typical household 1985 to 1988 taxation years (in dollars)

	1985		1986		1987		1988	
	Essential needs	Current Exemption	Essential needs	Exemption after reorganization	Essential needs	Exemption after reorganization	Essential needs	Exemption after reorganization
Single person								
• Sharing a dwelling	4 773	5 280	4 921	5 280	5 078	5 280	5 277	5 280
• Living alone	5 516	5 280	5 687	5 280	5 869	5 870	6 099	6 100
Childless couple								
• One spouse working	9 546	9 240	9 842	9 840	10 157	10 160	10 554	10 560
• Both spouses working	9 546	10 560	9 842	10 560	10 157	10 560	10 554	10 560
Couple with one child[2] One spouse working	11 359	9 240	11 711	11 710	12 086	12 090	12 558	12 570
Couple with two children[2] One spouse working	12 690	9 240	13 083	13 080	13 502	13 510	14 028	14 040
Single-parent family with one child	8 236	9 240	8 491	9 240	8 763	9 240	9 105	9 240

1 The rates of adjustment of essential needs are 3.1% for 1986, 3.2% for 1987 and 3.9% for 1988.
2 Children are under age 16.

Married person's exemption

The changes proposed will make the basic personal exemption and the married person's exemption equal, to recognize the same level of essential needs among couples where both spouses are on the labour market and those where only one spouse is working outside the home. In 1986, the total exemptions of a couple where one spouse is working will increase from $9 240 to $9 840. To the basic personal exemption of $5 280 will be added the married person's exemption which will be increased from $3 960 to $4 560. For the 1987 and 1988 taxation years, the married person's exemption will be increased to $4 880 and $5 280, at which time the objective of equalizing the exemptions will have been completely attained.

At present, the first $1 420 of a spouse's net income do not reduce the married person's exemption. Starting in 1986, the increase in the married person's exemption will replace the threshold of the spouse's income exempt from tax. Moreover as of this same taxation year, the dependent spouse's net income taken into account in calculating the married person's exemption is that for the entire taxation year, regardless of the date of marriage.

Exemption for dependent children

Under the current tax system, no exemption is granted for dependent children under 16. On the other hand, an $810 exemption is granted for children aged 16 and 17; a $1 320 exemption is granted for those aged 18 to 20, and for those 21 and over who are studying or suffer a physical or mental handicap. Such exemptions are however reduced by the dependent child's net income exceeding $2 930.

Starting in 1986, the tax system will be based on a system of exemptions applying to all dependent chidren under 21, or 21 or over if they are engaged in post-secondary studies.

The exemption will, however, be higher for the first child in a family than for each of the succeeding children in the same family, to reflect the higher level of expenditures to cover essential needs of a first child. For 1986, the exemption for a first dependent child will be $1 870 and, for each of the other dependent children, $1 370. In 1987 and 1988, the exemptions will increase to $1 930 and $2 010 for the first child, and to $1 420 and $1 470 for the others. Moreover, starting in 1986, these exemptions will be reduced by the dependent child's net income and federal family allowances paid with respect to the same children.

For the purpose of this exemption, the definition of a taxpayer's "dependent child" will include the following persons who are related to him, provided they are dependent upon him, live with him, no support payments are paid with respect to them, and they are under 21 or, 21 or over if they are engaged in post-secondary studies. These persons are the taxpayer's children, grandchildren, brothers, sisters, brothers-in-law, sisters-in-law, nephews, nieces, uncles, aunts, and, except in the case of brothers-in-law and sisters-in-law, all those of his spouse.

During the year of his marriage, a dependent may currently be entitled to two exemptions, i.e., that for dependent children granted to the parents, and the married person's exemption, which is granted to the spouse. To rectify this situation, the exemption for dependent children and the married person's exemption may not be claimed with respect to the same person during the same taxation year. Moreover, the dependent's net income taken into account in calculating this exemption will be that of the entire taxation year regardless of the date of marriage. These changes will apply starting in the 1986 taxation year.

Current Québec family allowances will continue to be paid but will, from now on, be added to the tax payable by the taxpayer who claims the exemption for the child for whom family allowances were paid. Taxpayers for whom the taxable income is nil before using the exemption for dependent children will not have to add the Québec family allowances they have received to their tax payable. Provisions will be made to ensure that, where taxpayers have limited taxable income, the family allowances added to income tax do not exceed the tax value of the exemption.

Exemption for other dependents

At present, a taxpayer may claim an exemption for certain persons 21 or over who are entirely dependent upon him, provided such persons are full-time students or are afflicted with a physical or mental handicap. This exemption applies not only to the taxpayers' children but to certain persons related to him by blood or by marriage when they have lived in Canada during the taxation year.

Starting in the 1986 taxation year, this exemption will be granted solely to dependents who would be dependent children were it not for the fact that they are 21 or over, afflicted with a physical or mental handicap. In addition, it will be increased from $1 320 to $4 560 in 1986. Subsequently, this exemption will be raised to $4 830 in 1987 and $5 020 in 1988. This increase in the exemption will replace the exempted income threshold for dependents which is $2 930 under the present system.

With respect to the exemption for dependents aged 21 or over, it will cease to apply to dependent students 21 or over as, for them, this exemption is replaced by the exemption for dependent children and by the new additional exemption for dependent children engaged in post-secondary studies.

Additional exemption for dependent children engaged in post-secondary studies

In order to more accurately take into account the additional needs of students at the post-secondary level and better integrate the student loan and scholarships plan into the tax system, an additional exemption for dependent children engaged in post-secondary studies will be introduced. It will be added to the exemption for dependent children. Starting in 1986, the annual maximum for this exemption will be $2 690, i.e., $1 345 per semester of full-time study. The annual total will be increased to $2 900 in 1987, and to $3 010 in 1988.

Such a student who is dependent upon his parents will entitle the latter to up to $4 560 in exemptions in the case of a first child. Moreover, the total of such exemptions will be reduced by the dependent student's net income.

Age exemption

Under the current tax system, persons aged 65 or over benefit from a special $2 200 exemption.

Out of a concern for equity toward those under 65 who are working, it is important for the tax system to be applied to taxpayers aged 65 or over who continue to work. Consequently, as of January 1, 1986, the age exemption will be maintained for persons aged 65 or over who are retired. The age exemption for those who continue to work will be reduced by net employment income or net income from an active business.

Special exemption for a person living alone in a dwelling

Persons living alone, i.e., not sharing an independent dwelling with a person other than a dependent child, will be entitled to a special exemption in order to take into account their additional housing costs.

The administrative measures necessary for its application and supervision will be elaborated and the notion of independent dwelling which applies for the purpose of the exemption will be defined. The exemption applicable in 1987 will be $590, and in 1988, $820.

Exemption for heads of single-parent families

Under the current tax system, the head of a single-parent family may claim, in addition to his $5 280 basic personal exemption, the $3 960 equivalent of the married person's exemption with respect to his first dependent child. Such a taxpayer benefits from a total of $9 240 in exemptions.

The $3 960 exemption with respect to the first child in a single-parent family will be replaced by the general exemption for the first dependent child, the additional exemption equal to 50% of the exemption for dependent children and the special exemption for a person living alone in a dwelling when the total of these three exemptions reaches the current level of the equivalent of the married person's exemption. The current exemption granted for the first child in a single-parent family will be maintained until 1988, instead of these three exemptions. This exemption will be reduced by the dependent child's net income.

Equivalent of the married person's exemption

Under the current system, certain dependents other than the first child in a single-parent family give entitlement to the equivalent of the married person's exemption. Under the reorganization, the exemption for other dependents replaces the equivalent of the married person's exemption and, as was noted earlier, grants a higher exemption than the current equivalent of the married person's exemption.

Deduction for general employment-related expenses

Being employed leads to additional costs for the employee which would not be incurred were he not on the labour market. The current deduction for general employment-related expenses, 3% of employment income, up to a maximum of $500, has not been revised recently and appears insufficient to cover expenses related to employment. Consequently, this deduction will be increased to 6% of employment income as of January 1, 1986; the current maximum of $500 will be increased to $600 in 1987 and to $750 in 1988. In 1986, the taxpayer will thus benefit from a maximum of $500 of the deduction when his employment income reaches $8 333, compared to $16 666 in 1985.

Deduction for child care expenses

Starting in the 1986 taxation year, the deduction for child care expenses will be completely altered to reflect expenses incurred. This deduction is currently allowed with regard to children under 14, and is limited to the lesser of expenses incurred, of $2 000 per child, $6 000 per family, and 2/3 of the net income of the spouse with the lower net income.

As of 1986, the deduction for child care expenses will only be granted with respect to children under 12. The maximum deduction for children under 6 will be higher than for those aged 6 to 11. It will be limited, in 1986, to the lesser of the expenditures incurred, $3 510 per child under 6 and $1 755 per child aged 6 to 11, 40% of the net employment income of the spouse with the lower net income in the case of one child, 80% for two children, and of 100% for three children or more. For 1987, the amounts of $3 510 and $1 755 will increase to $3 640 and $1 820, and to $3 770 and $1 885 in 1988, respectively

Moreover, starting in the 1986 taxation year, the deduction for child care expenses may be claimed, at the choice of the taxpayer, by the spouse with the higher income, while, at present, it is usually claimed by the spouse with the lower income. The taxpayer claiming the deduction will also be able to deduct an estimated amount for child care expenses from his income tax deductions at-source. The choice between the availability allowance and the deduction for child care expenses is maintained.

General deduction of $100 for medical expenses and charitable donations

The general deduction of $100 for medical expenses and charitable donations will be abolished as of the 1986 taxation year. Upon presentation of receipts, taxpayers who have made donations to charitable organizations may, in calculating their taxable income, deduct donations made to such organizations up to a maximum of 20% of their net income.

With regard to medical expenses, taxpayers may, upon presentation of receipts, deduct an amount equal to their medical expenses, less 3% of their net income, as is the case under the current tax system.

Property tax credit

Under the current tax system, a property tax refund is granted to reduce the regressivity of property taxes among low-income households. The refund is equal to 40% of property taxes attributable to the dwelling, up to a maximum of $1 000, less 2% of the net income of the household for the purpose of property tax refunds. The maximum credit is $400.

In terms of essential recognized needs which are used to determine basic personal exemptions, the portion of property taxes related to essential needs is included. For example, for the 1986 taxation year, the amount of property taxes included in the personal exemptions of a couple with two children is $604, i.e., $240 per spouse and $62 per dependent child.

To avoid having the State doubly compensate these needs, the current property tax refund is being modified to take into account the amount of exemptions the taxpayer will receive with regard to property taxes. A new property tax credit is being established with respect to property taxes which are eligible for the credit. The property taxes allowable are the ones paid in excess of the amount included in personal exemptions. This credit will be equal to 40% of allowable property taxes, less 2% of the income of the household in excess of personal exemptions and deductions related to employment. These deductions include, among others, the deduction for general employment-related expenses, the child care expense deduction, contributions to the Québec Pension Plan, and unemployment insurance contributions.

The amounts of property taxes related to essential needs, the maximum of property taxes eligible for the credit and the maximum property tax credit which may be claimed are outlined in the following table.

Property tax credit
1985 to 1988 taxation years
(in dollars)

	Property taxes equivalent to essential needs		Maximum property taxes eligible for credit	Maximum property tax credit
	Per spouse	Per dependent child		
1985	235	60	870	348
1986	240	62	900	360
1987	250	64	925	370
1988	260	66	960	384

This new property tax credit will come into force for the 1985 taxation year and will be paid to taxpayers after their income tax returns are processed in the spring of 1986.

However, the new property tax credit is likely to be disadvantageous to households with incomes below the zero tax threshold. To avoid penalizing certain types of low-income households, corrective measures will be introduced in January 1986 for social aid recipients and the elderly.

With respect to social aid recipients, the scale of social aid will be increased on January 1, 1986, representing $96 per adult and $25 per dependent child for the full year 1986.

A corrective measure will be included in the new property tax credit, covering low-income earners aged 65 or over. It will apply as of the 1985 taxation year and will entail paying anyone eligible aged 65 or over $85 in addition to his property tax credit. This person will have to fulfil certain conditions; in particular, he will have to be eligible for the property tax credit, have paid, or been deemed to have paid with respect to a dwelling, property taxes and be a recipient of the federal guaranteed income supplement. Where the recipient's spouse also receives the federal guaranteed income supplement or the spouse's allowance, the spouse will also receive an additional $85.

Consumption Tax Credit

Under the current system, the consumption of certain essential goods is taxed. Because of personal exemptions from which they may benefit, middle and high-income earners are not taxed on income allocated to satisfying their essential needs. With regard to social aid recipients or low-income earners receiving transfers, the benefits they receive include consumption taxes paid in relation to their essential needs. Such taxes are, therefore, refunded by the State. On the contrary, however, low-income earners not receiving transfers do not obtain any refund for the consumption taxes they have paid. To rectify this situation, a consumption tax credit will be introduced in 1986.

For 1986, the consumption tax credit has been set at $67 for each spouse and $22 for each dependent child in the household. To avoid taking this expenditure into account twice under the tax system, the credit will be reduced by 3% of total household income exceeding personal exemptions and deductions related to employment. The credit will not be refundable as long as the integration of the tax and transfer systems will not have been achieved. For example, with respect to a family with two dependent children, a total of $178 in consumption taxes will be recognized with regard to essential needs in 1986. In 1987 and 1988, the credit will total $69 and $72, respectively, per spouse, and $23 and $24 per dependent child.

Zero tax threshold

Various changes in exemptions, deductions and tax credits arising from the changes in personal income tax increase taxpayers' zero tax threshold and, consequently, permit a substantial number of taxpayers who would otherwise have paid tax to avoid doing so.

In this regard, couples with children are the main beneficiaries. For example, a couple with only one spouse currently on the labour market and with two children from 6 to 11 did not pay any Québec income tax in 1985 where its income was under $12 367. The same couple's zero tax threshold will increase to $15 000 in 1986, and to $16 230 in 1988. Where both spouses are working, they will benefit from a total in various exemptions and deductions of about $19 700 in 1986, compared with less than $17 500 in 1985.

A childless couple with only one spouse working will start paying tax at an income of about $12 000, compared with $10 000 under the current system. With regard to elderly retired people and people who are not living alone, their zero tax threshold will remain essentially unchanged as, under the current system, their essential needs are largely covered by exemptions.

In 1986, various changes in exemptions, deductions and tax credits will ensure that more than 41 000 low-income taxpayers will no longer have to pay Québec income tax.

Comparison of zero tax thresholds under the current system and after the reorganization
1985 to 1988 taxation years
(in dollars)

	Current system	After reorganization		
	1985	1986	1987	1988
Single person living alone				
• exemptions and deductions	5 380	5 811	6 417	6 671
• employment-related expenses	370	613	683	712
• zero tax threshold	5 750	6 424	7 100	7 383
Childless couple				
One employment income				
• exemptions and deductions	9 340	10 868	11 217	11 662
• employment-related expenses	675	956	1 077	1 254
• zero tax threshold	10 015	11 824	12 294	12 916
Couple with two children from 6 to 11				
One employment income				
• exemptions and deductions	11 566	13 819	14 269	14 835
• employment-related expenses	801	1 086	1 213	1 395
• zero tax threshold	12 367	14 905	15 482	16 230
Couple with two children from 6 to 11				
Two employment incomes				
• exemptions and deductions	16 366	18 049	18 309	18 605
• employment-related expenses	1 126	1 629	1 749	1 920
• zero tax threshold	17 492	19 678	20 058	20 525
Couple 65 or over				
Without employment income				
• exemptions and deductions[1]	15 160	15 268	15 617	16 062
• employment-related expenses	—	—	—	—
• zero tax threshold	15 160	15 268	15 617	16 062

1 Deductions of $1 000 each related to the first $1 000 of pension income and the first $1 000 of investment income which taxpayers may benefit from are not taken into account

SUMMARY TABLE
Reorganization in personal income tax
Changes in personal exemptions, deductions and tax credits
1985 to 1988 taxation years

	Current system	System after reorganization		
	1985	1986	1987	1988
1. CHANGES IN EXEMPTIONS				
— Basic personal exemption	$5 280	$5 280 Property tax deduction included: $240	$5 280 Property tax deduction included: $250	$5 280 Property tax deduction included: $260
— Married person's exemption	$3 960 less spouse's net income for income tax purposes exceeding $1 420	$4 560[1] less spouse's net income Property tax deduction included: $240	$4 880[1] less spouse's net income Property tax deduction included: $250	$5 280 less spouse's net income Property tax deduction included: $260
— Exemption for dependent children				
• 21 or over	$1 320 less net income for income tax purposes exceeding $2 930			
	Applying solely to children engaged in studies or dependent because of a physical or mental handicap	$1 870 for the first child + $1 370 for each succeeding one less dependent child's net income. Each amount includes a $62 property tax deduction.	$1 930 for the first child + $1 420 for each succeeding one less dependent child's net income. Each amount includes a $64 property tax deduction.	$2 010 for the first child + $1 470 for each succeeding one less dependent child's net income. Each amount includes a $66 property tax deduction.
• From 18 to 20	$1 320 less net income for income tax purposes exceeding $2 930			
• From 16 to 17	$810 less net income for income tax purposes exceeding $2 930			
• Under 16	None	The exemption for a dependent child aged 21 or over applies where the child is engaged in studies at the post-secondary level. The exemption for other dependents applies to children aged 21 or over who are dependent because of a physical or mental handicap.		

1 The married person's exemption is adjusted so that the exemption for a couple corresponds to the level of their essential needs.

SUMMARY TABLE (Cont'd.)
Reorganization in personal income tax
Changes in personal exemptions, deductions and tax credits
1985 to 1988 taxation years

	Current system	System after reorganization		
	1985	1986	1987	1988
— Exemption for dependents aged 21 or over	$1 320 less net income for income tax purposes exceeding $2 930. Applies solely to children engaged in studies or suffering from a physical or mental handicap.	$4 560 less dependent's net income.	$4 830 less dependent's net income.	$5 020 less dependent's net income.
		This exemption applies solely to other dependents aged 21 or over suffering from a physical or mental handicap.		
— Additional exemption for dependent children engaged in post-secondary studies	None	$2 690 maximum $1 345 per semester	$2 900 maximum $1 450 per semester	$3 010 maximum $1 505 per semester
		The dependent student's net income will reduce the total of the exemption for dependent children and this additional exemption.		
— Special exemption for a person living alone in a dwelling	None	—	$590[2]	$820
— Equivalent of the married person's exemption				
• First child in a single-parent family	$3 960 less net income for income tax purposes exceeding $1 420 for the first dependent child in a single-parent family	The $3 960 exemption is maintained but will be replaced by the three exemptions which follow when they total the current amount of $3 960.		
		— Exemption for first dependent child:		
		$1 870	$1 930	$2 010
		— Additional exemption equal to 50% of that for the first child:		
		$935	$965	$1 005
		— Special exemption for a person living alone in a dwelling:		
		$0	$590	$820
		The first dependent child's net income will reduce the exemption granted.		
• Other dependents which give entitlement to this exemption	$3 960 less net income for income tax purposes exceeding $1 420 for the dependent	Replaced as the case may be by the exemption for dependent children or by that for other dependents.		

2 The special exemption for a person living alone in a dwelling is adjusted to correspond to the level of essential needs recognized for that person.

SUMMARY TABLE (Cont'd.)
Reorganization in personal income tax
Changes in personal exemptions, deductions and tax credits
1985 to 1988 taxation years

	Current system	System after reorganization		
	1985	1986	1987	1988
2. CHANGES IN DEDUCTIONS				
— Deduction for general employment-related expenses	3% of income to a maximum of $500	6% of income to a maximum of $500	6% of income to a maximum of $600	6% of income to a maximum of $750
— General deduction of $100	$100	—	—	—
— Deduction for child care expenses	Granted with respect to children under 14 for whom child care expenses were incurred. The maximum deduction is the lesser of the following amounts: — expenses actually incurred; — $2 000 per child and $6 000 per family; — ⅔ of the employment income of the spouse with the lower income. The deduction is claimed by the spouse with the lower income.	Granted with respect to children under 12 for whom child care expenses were incurred. The maximum deduction is the lesser of the following amounts: — expenses actually incurred; — $3 510 per child under 6; — $1 755 per child from 6 to 11; — 40% of the employment income of the spouse with the lower income for one child, 80% for 2 children and 100% for 3 children or more. The deduction may be claimed by the spouse with the higher income.	Same terms as 1986 except for following ceilings: • Children under 6: $3 640 per child; • Children from 6 to 11: $1 820 per child.	Same terms as 1986 except for following ceilings: • Children under 6: $3 770 per child; • Children from 6 to 11: $1 885 per child.
— Age exemption	$2 200 per person aged 65 or over	$2 200	$2 200	$2 200
		Maintained solely for elderly persons who are retired. It is reduced by net employment income or active business income.		

SUMMARY TABLE (Cont'd.)
Reorganization in personal income tax
Changes in personal exemptions, deductions and tax credits
1985 to 1988 taxation years

	Current system	System after reorganization			
	1985	1985	1986	1987	1988
3. CHANGES IN TAX CREDITS					
— Quebec family allowances	Monthly amount varying between $7.90 and $15.80 according to the child's rank and payable with respect to children under 18	Paid according to the amounts in effect under the current system but considered in the tax payable of taxpayers benefiting from the exemption for dependent children			
— Consumption tax credit	None	None	Consumption tax recognized with respect to essential needs Per spouse 67 $ Per spouse $69 Per spouse $72 Per child $22 Per child $23 Per child $24 The credit is equal to recognized consumption taxes less 3% of total household income income in excess of personal exemptions and certain deductions for employment-related expenses. It is not refundable		
— Property tax credit	The current credit represents 40% of property taxes paid with respect to the household's principal residence (up to a maximum of $1 000) less 2% of net household income recognized for the purpose of the property tax refund. Net income for the purpose of the refund is equal to 90% of total household income, including transfers, less personal household exemptions. The maximum credit is $400	The credit for property taxes paid with respect to the principal residence will be equal to 40% of allowable property taxes less 2% of total household income in excess of personal exemptions and certain deductions for employment-related expenses. Allowable property taxes are property taxes in excess of the amount of property taxes equivalent to essential needs. Total household income includes transfers, with the exception of total Québec family allowances, for a household benefiting from an exemption for a dependent child. The maximum in allowable property taxes is $870 The maximum credit is $348 The amount of property taxes equivalent to essential needs is Per spouse $235 Per dependent child $60 To avoid penalizing certain groups such as the elderly and social aid recipients, corrective measures will be introduced.	$900 $360 Per spouse $240 Per dependent child $62	$925 $370 Per spouse $250 Per dependent child $64	$960 $384 Per spouse $260 Per dependent child $66

CHANGES IN THE TAX SYSTEM AS IT APPLIES TO MIDDLE AND HIGH-INCOME TAXPAYERS

The Québec tax system is characterized by high marginal rates, especially for middle and high-income taxpayers. For these taxpayers, two measures are introduced to make the Québec tax system more competitive and improve its equity: a new tax table with a reduced maximum marginal rate and the implementation of a limit on tax expenditures.

Tax table

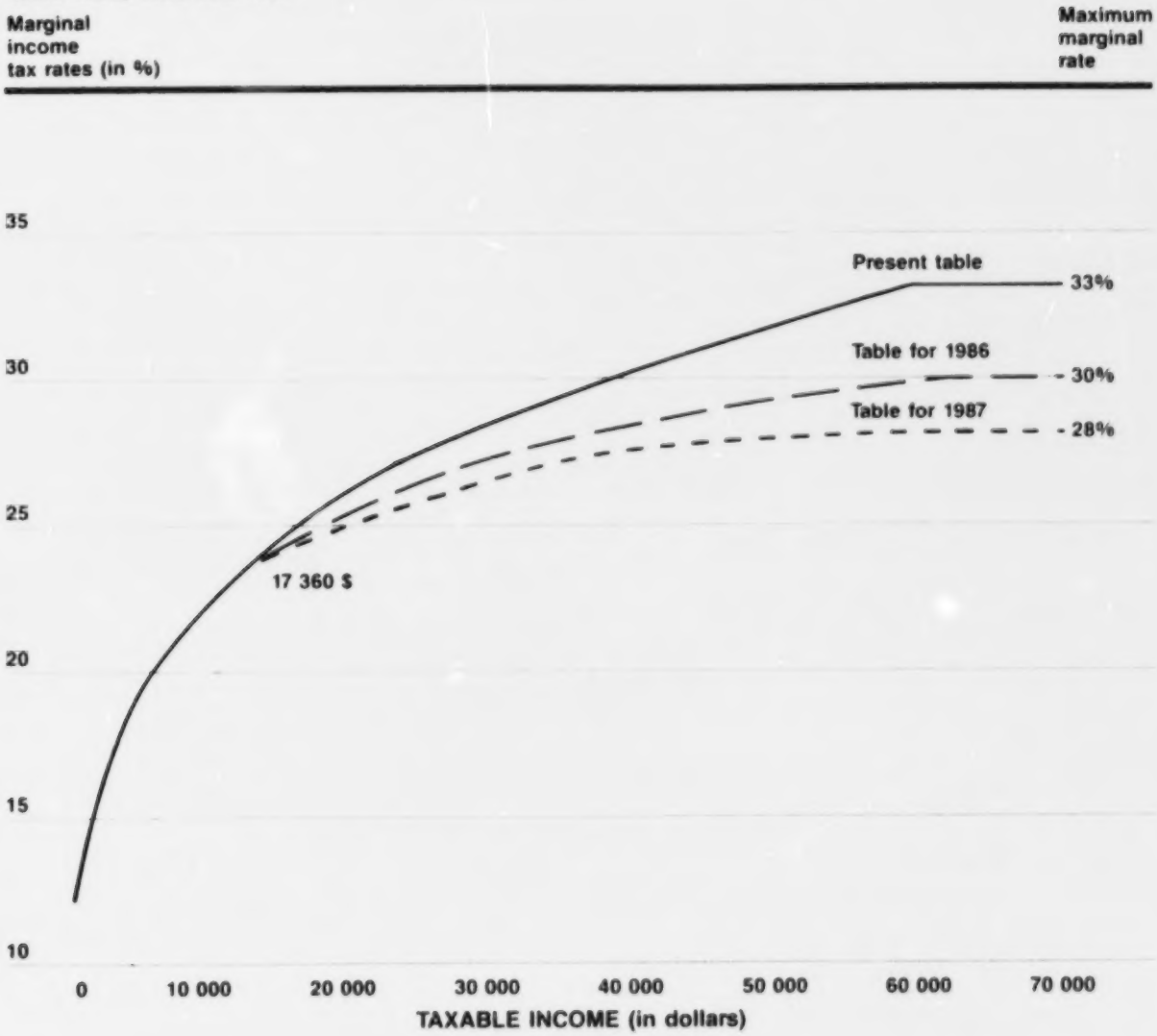
To make the tax system more competitive, the table will be changed in order to reduce the high marginal tax rates and bring the maximum marginal income tax rate in Québec down from 33% to 28%. This reduction will occur in two stages: an initial reduction in the maximum marginal rate from 33% to 30% will be introduced as of January 1, 1986, and a second one, from 30% to 28%, as of January 1, 1987. This 5-percentage point drop will, when account is taken of the general reduction of 3%, bring down the maximum marginal federal and provincial tax rates from 60.4% to 55.6%.

The new tax table, which appears in the following table and graph, will lower the maximum marginal tax rates of all taxpayers who currently have income taxable at a marginal rate of 25% or more, i.e., those whose taxable income is now above $17 360. The maximum marginal tax rate will continue to apply to taxable income of about $60 000, although intermediate income brackets have been broadened in order to make the tax table less progressive. All told, more than 700 000 taxpayers will benefit from the new tax table for each of the next two years.

Comparison of the present tax table with the new table 1985 to 1987 taxation years

Present table: 1985		1986		1987	
Taxable income brackets (in dollars)	Marginal rate of bracket (%)	Taxable income brackets (in dollars)	Marginal rate of bracket (%)	Taxable income brackets (in dollars)	Marginal rate of bracket (%)
0 — 577	13	0 — 577	13	0 — 577	13
577 — 1 244	14	⋮	⋮	⋮	⋮
1 244 — 2 015	15	⋮	⋮	⋮	⋮
2 015 — 2 906	16	⋮	⋮	⋮	⋮
2 906 — 3 936	17	⋮	⋮	⋮	⋮
3 936 — 5 127	18	Same tax table as in 1985		Same tax table as in 1985	
5 127 — 6 504	19	⋮	⋮	⋮	⋮
6 504 — 8 095	20	⋮	⋮	⋮	⋮
8 095 — 9 935	21	⋮	⋮	⋮	⋮
9 935 — 12 061	22	⋮	⋮	⋮	⋮
12 061 — 14 519	23	⋮	⋮	⋮	⋮
14 519 — 17 360	24	14 519 — 17 813	24	14 519 — 18 820	24
17 360 — 20 644	25	17 813 — 22 226	25	18 820 — 26 347	25
20 644 — 24 441	26				
24 441 — 28 829	27	22 226 — 28 141	26	26 347 — 39 169	26
28 829 — 33 902	28	28 141 — 36 066	27		
33 902 — 39 766	29				
39 766 — 46 544	30	36 066 — 46 685	28	39 169 — 61 608	27
46 544 — 54 380	31	46 685 — 60 915	29		
54 380 — 60 714	32				
60 714 and over	33	60 915 and over	30	61 608 and over	28

GRAPH OF TAX TABLES
Years 1985, 1986 and 1987



Limit on tax expenditures (minimum income tax)

Personal income tax, which represents nearly 50% of the government's own-source revenues, constitutes the foundation of the tax system and determines, by its progressivity and the level of marginal tax rates, the distribution of the tax burden among individuals.

This form of tax has become a vehicle which is widely used by the government to attain its economic and social objectives. The extension of its role to objectives other than that of financing public expenditures does, nonetheless, raise problems respecting equity. It is hard to justify the fact that certain high-income earners may, by using various tax expenditures not related to their ability to pay, considerably reduce or eliminate their income tax. A balance must be struck between the objectives of equity and the financing of government expenditures, and objectives related to economic and social development through tax expenditures. When a high-income earner succeeds in completely obviating his tax payable through extensive use of tax expenditures, the second objective has become overly important in relation to the first.

It is for this reason, although objectives related to economic and social development are an integral part of the tax system, that taxpayers who are able to finance government expenditures must pay a minimum in income tax.

Various methods may be envisaged to ensure that high-income earners pay a minimum in income tax. The first consists in collecting a minimum tax from well-to-do taxpayers whose average tax rate is lower than the predetermined level. Such a measure currently applies in the United States. The second solution consists of setting a maximum limit on the total amount of tax expenditures which a taxpayer may claim in a given taxation year. Certain deductions or tax expenditures may also be cancelled or reduced.

The introduction of a minimum tax would imply a major overhaul of tax legislation and regulations as they would necessitate redefining concepts of "total income", "net income" and "taxable income", in federal and Québec legislation. Under these circumstances, it seems more difficult to contemplate isolated action on the part of Québec in this respect. For this reason, it has been decided to proceed by limiting tax expenditures. Furthermore, placing a ceiling on such expenditures makes it possible to achieve the objective of a minimum tax without requiring major changes in legislation, while remaining relatively simple for the taxpayer and easy to administer for the government.

Consequently, as of the 1986 taxation year, a taxpayer's use of tax expenditures will be limited to 40% of his "modified net income", i.e., the taxpayer's total income less personal exemptions, deductions for employment-related expenses and some special deductions which should otherwise reduce total income. Special deductions include, in particular, capital losses from previous years, losses on investments in a business, expenses of earning investment income, alimony and child support payments and deductions claimed when one RRSP is rolled over into an RPP.

To prevent this measure from affecting all taxpayers, only taxpayers claiming more than $20 000 in tax expenditures will be limited to 40% of their modified net income.

The amount claimed in tax expenditures which exceeds the ceiling set at 40% of the taxpayer's modified net income must be added to his taxable income for the current year and may be carried over as a deduction in subsequent taxation years. However, it will, along with other tax expenditures claimed in the same subsequent taxation year, be subject to the 40% ceiling.

Limited tax expenditures will include deductions, transfers of deductions, losses or transfers of the deductions of partnerships, and tax credits. In the latter instance, the amount which entitles the taxpayer to the credit will be added to limited tax expenditures.

The following tax expenditures, in particular, will be taken into account in the calculation of this limit:

- Contributions to a registered pension plan (RPP)
- Contributions to a registered retirement savings plan (RRSP)
- Deduction under a Québec Stock Savings Plan (QSSP)
- Deductions relative to an investment in a Société de placements dans l'entreprise québécoise (SPEQ)
- Deductions relative to a cooperative investment plan (CIP)
- Credit relative to the Fonds de Solidarité des Travailleurs de la FTQ (FST)
- Transfers of deductions between spouses: interest, dividend and retirement income, i.e., all transfers of deductions between spouses except the deduction for the blind, the bedridden, or persons confined to a wheelchair
- Deduction for retirement income
- Interest and dividend deduction
- Certain deductions for accelerated depreciation and other tax expenditures (e.g. earned depletion) which currently reduce the total business and rental income (MURB, partnerships, 66 $^{2}/_{3}$% deduction, flowthrough shares and so forth)
- Losses or transfers of deductions in partnerships (66 $^{2}/_{3}$% deduction and so on)
- Deductions for flowthrough shares (mining sectors)
- Additional deduction for Québec films
- Restricted farm losses
- Deduction for charitable donations to organizations
- Deduction for donations to the government and cultural property
- Credit for contributions to a political party
- 10% refundable research and development credit
- 25% research and development credit

This measure will come into force in 1986. However, it does pose several problems. Its terms and conditions must be such that they do not render more complicated the personal income tax return and tax legislation. Moreover, the possibility of harmonizing the minimum tax system, which the federal government may introduce, with the current system will be seriously considered to avoid adding to the complexity of the Québec and federal tax systems.

ABOLITION OF SUCCESSION DUTIES AND THE GIFT TAX

Duties payable under the Succession Duties Act and the tax on gifts payable under the Taxation Act are abolished with respect to successions opened and gifts made after midnight of the evening of the Budget Speech.

However, certain provisions in the Succession Duties Act and the Taxation Act will remain in effect to facilitate the transition. This is the case, among other things, with respect to provisions which stipulate duty or tax credits of 50% when property is transmitted during the lifetime of the taxpayer, prior to the abolition of succession duties, or because of death prior to the abolition of succession duties, includes shares in a private corporation or farm property whose use for determined purposes must be pursued for at least seven years.

The obligation to obtain a permit to dispose of property transmitted or deemed to have been transmitted in the event of death, in instances currently stipulated in the Act, will be maintained. This will make it possible to maintain better control over the payment of taxes stipulated in other tax legislation, thereby facilitating its application.

Finally, with respect to credits on duties accumulated by individuals who have made gifts, prior to midnight of the evening of the Budget Speech payable under the Succession Duties Act, to a prescribed foundation, such individuals may claim them when they die against income tax payable for the year in which they die.

QUÉBEC STOCK SAVINGS PLAN

The Québec Stock Savings Plan (QSSP) has become a widely used tax shelter among Québec taxpayers, especially those with high incomes. About 140 000 taxpayers took advantage of this measure in 1984; the rate of participation in the scheme increases markedly as income rises. Tax statistics for 1983 reveal that two-thirds of taxpayers with income of $100 000 or more participated, compared with 40% of those with incomes between $50 000 and $100 000, and 20% of those in the $40 000 to $50 000 bracket.

With the increase in the number of participants in the QSSP, the latter has become relatively costly; it is expected to have cost $170 000 000 for the 1984 taxation year. Changes in the QSSP which make it possible to finance a portion of the reduction in the high marginal tax rates of taxpayers are therefore introduced.

As of January 1, 1986, the use of the Québec Stock Savings Plan will be restricted by the following measures. First, the ceiling of contributions for the purchase of shares eligible for inclusion inthe QSSP will be reduced from $20 000 to $10 000. Second, the deduction respecting purchases of shares in corporations whose assets exceed $1 billion will be set at a maximum of $1 000 per year per taxpayer. Finally, the rate of deduction for shares eligible is reduced, especially the 150% deduction with respect to shares in developing corporations, which drops to 100%, while that respecting shares which are 100% eligible is reduced to 75%. A more detailed discussion of these measures appears in the section devoted to the capitalization of corporations.

These changes will reduce the cost to the government of the QSSP by about $90 000 000 and will help finance a portion of the reduction in the maximum marginal tax rates of high-income taxpayers.

The following table illustrates the impact of changes in the Québec Stock Savings Plan and the tax table; it shows that, in 1987, a taxpayer who is married with two children and who has taxable income of $75 000 will pay $319 less in income tax where he claims a QSSP deduction equal to the average of deductions noted in 1983 in his income bracket and if he reduced by half his deductions following the reworking of the QSSP. On the other hand, where such a taxpayer did not participate in the QSSP, the drop in marginal tax rates will reduce his income tax by $1 885, compared to an increase in his tax burden of $193 in 1987 had he claimed the maximum QSSP deduction.

Illustration of the gain (or loss) resulting from the changes in the tax table and the Québec Stock Savings Plan (QSSP)
1987 taxation year
(in dollars)

Taxable income	Taxpayer without QSSP	Taxpayer with maximum QSSP[1]	Taxpayer with average QSSP[2]
30 000	135	47	– 366
40 000	382	174	– 310
50 000	707	382	– 255
75 000	1 885	– 193	319
100 000	3 098	– 588	1 402
150 000	5 523	1 837	3 717

Notes:
A (–) sign indicates an increase in tax payable

The illustration particularly concerns couples with two children from 6 to 11. The results obtained for other types of households should be similar, insofar as no account is taken of changes in the amount of exemptions.

1 The taxpayer participates only in the QSSP. Thus, no deduction respecting RRSPs or other deductions affecting the QSSP deduction are taken into account.

2 Under the current system, the average QSSP deduction is that noted for taxpayers having participated in the QSSP in 1983. Half of the deduction noted has been used with regard to the modified QSSP.

IMPACT OF THE REORGANIZATION IN PERSONAL INCOME TAX

On the tax burden of different types of households

The reorganization of personal income tax affects the 1985 to 1988 taxation years. The replacement of the property tax refund by a new property tax credit is the only fiscal measure under the reorganization, other than the abolition of succession duties and the gift tax, which applies to the 1985 taxation year. This fiscal measure will represent a loss to taxpayers of $72 000 000 in the 1985 taxation year. However, its impact on households will only be felt in the spring of 1986 when the new property tax credit will be paid to taxpayers following the processing of their income tax returns.

In the meantime, most of the measures related to exemptions and deductions will be implemented starting January 1, 1986, and will be integrated into deductions at-source. This is the case, in particular, for married persons' and dependent children's exemptions which have either been improved or introduced by the reorganization, and the new deduction for child care expenses.

Couples with children will be the main beneficiaries of the modifications, especially because of reforms in exemptions for dependent children, which will make it possible to better take into account the essential needs of families, and deductions respecting employment-related expenses, which have been improved. Indeed, couples with children, who represent 27% of households, will obtain 83% of the benefits of the reorganization in 1986, 65% in 1987, and 62% in 1988. When the reorganization is completed, the total gain will be $438 000 000 for these people, or an average of $538 per household with children for the 1988 taxation year without considering the abolition of succession duties and the gift tax.

Impact of the reorganization in personal income tax by type of household[1] (in millions of dollars)

Type of household	Number of households	1986	1987	1988
Single persons	1 309 000	1 3	68 5	108 0
Single-family	185 000	15 3	18 1	20 6
Childless couples	416 000	20 4	71 5	111 7
Couples with children	814 000	216 7	334 4	438 3
Elderly persons	318 000	7 6	22 6	28 8
TOTAL IMPACT	**3 042 000**	**261.4**	**515.4**	**707.4**

Note: Because of rounding, figures may not add to the totals shown.

1 Excluding the abolition of succession duties and the gift tax.

Changes in exemptions, deductions and tax credits are the most advantageous measures of the reorganization in personal income tax. Of these changes, those in exemptions and deductions related to children will represent $246 000 000 in 1986. The increase in the married person's exemption is also an important one for households.

As the following table indicates, the impact on overall disposable household income, considering the abolition of succession duties and the gift tax, represents an increase in their disposable income of $313 000 000 in 1986. This amount will rise to $570 000 000 in 1987 and $765 000 000 in 1988.

With respect to the taxation of high-income taxpayers, the changes made in the QSSP, the limitation of tax expenditures and changes in the tax table, which do not mean benefits for all taxpayers in 1986, represent a reduction in the tax burden of these taxpayers of close to $80 000 000 in 1987 when the maximum marginal rate will be reduced by 5 percentage points.

Impact of the reorganization in personal income tax on disposable household income (in millions of $)

	1986	1987	1988
CHANGES IN EXEMPTIONS, DEDUCTIONS AND TAX CREDITS			
Basic personal exemption and exemption for person living alone in a dwelling	—	47.8	68.4
Married person's exemption	100.2	153.4	224.2
Exemptions and deductions related to children	245.6	269.6	294.1
Property tax credit[1]	- 73.4	- 78.5	- 82.9
Other measures	- 29.3	3.2	59.4
Total changes in exemptions, deductions and tax credits	243.1	395.5	563.2
CHANGES IN TAXATION OF MIDDLE AND HIGH-INCOME TAXPAYERS			
Changes in the QSSP and limit of tax expenditures	- 116.8	- 121.0	- 125.6
Tax table	94.6	199.0	226.1
Total of changes in taxation of middle and high-income taxpayers	- 22.2	78.0	100.5
Subtotal: personal income tax	**220.9**	**473.5**	**663.7**
Adjustment measures for social aid recipients	40.5	41.9	43.7
Impact of reorganization in personal taxation	261.4	515.4	707.4
Abolition of succession duties and gift tax	52.0	55.0	58.0
TOTAL IMPACT	**313.4**	**570.4**	**765.4**

1 Includes the cost of adjustment measures for the elderly

On the tax burden of certain typical households

The impact of the reorganization varies significantly between various typical households among low or middle-income households and among high-income ones. The two tables which follow illustrate this impact on the tax burden of certain typical low and middle-income households.

The tax burden of a couple with two children under 12 and an income between $15 000 and $40 000, will decrease whether one or both spouses are working. In the case of a couple with only one spouse working, the drop in tax burden in 1986 will vary between $250 on income of $20 000 and $637 on income of $40 000. The reduction in tax for the same couple with two employment incomes, and where one spouse has an income fixed at $20 000, will be $533 in 1986 on household employment income of $30 000 and $484 on income of $50 000.

A single person living alone will pay slightly more tax in 1986 if he earns less than $20 000. The increase will be about $60 on income of $15 000 and $20 on income of $20 000. Starting in 1987, his tax burden will decrease following the introduction of the specific exemption for a personal living alone in his dwelling. A childless couple earning $40 000 or less will pay slightly less income tax in 1986, but the reduction will increase in succeeding years.

The tax burden of single persons 65 and over who are still on the labour market will go up in 1986, because of the restriction introduced to the age exemption with respect to any of these persons who continue to work. The disposable income of these elderly single persons will remain more or less at the present level if they have retired.

Similarly, the tax burden of an elderly couple whose breadwinner continues to work will increase, in 1986. For those who have retired, there will be no impact if they are low-income taxpayers and receive a guaranteed income supplement; 61% of elderly persons come under this category. On the other hand, retired couples in the middle-income range will be particularly affected by the reorganization, primarily because of the abolition of the spouse's exempted net income threshold, which is not completely offset by the increase in the married person's exemption.

Gain arising from the reorganization[1]
Couple with two children under 12
(in dollars)

Household employment income	Couple with two children under 12 One employment income		
	1986	**1987**	**1988**
15 000	324	408	516
20 000	251	338	465
30 000	500	612	759
40 000	637	806	964
	Couple with two children from 6 to 11 Two employment incomes, one of which is $20 000		
	1986	**1987**	**1988**
30 000	533	595	655
35 000	365	425	509
40 000	264	322	405
50 000	484	552	649

1 The gain corresponds to a drop in tax burden, which includes Quebec income tax less tax credits and refunds, family and availability allowances and transfer programs (social aid, WINSUP, child care cost grant and so on), as the case may be.

Gain arising from the reorganization[1] for typical households (in dollars)

Household employment income	Childless couple One employment income			Single person between 30 and 64 living alone		
	1986	1987	1988	1986	1987	1988
15 000	22	101	206	– 67	68	137
20 000	– 62	17	118	– 22	132	214
30 000	74	172	292	– 5	181	272
40 000	189	349	487	71	343	437

	Single-parent family with one child under 6					
	Without subsidy for child care expenses			With subsidy for child care expenses[2]		
	1986	1987	1988	1986	1987	1988
15 000	192	110	105	75	– 10	9
20 000	123	55	63	179	108	116
30 000	177	91	100	177	91	100
40 000	231	187	195	231	187	195

Note: A (–) sign indicates an increase in tax burden.

1 The gain corresponds to a drop in tax burden, which includes Québec income tax, less tax credits and refunds, family and availability allowances and transfer programs (social aid, WINSUP, subsidy for child care costs and so forth), if applicable.

2 Single-parent families receiving a child care expense allowance will benefit from the increase in the allowance of $1.00 per day spent in day care, as recently announced, which will come into effect on June 1, 1985. This increase, which will add $186 per year to the disposable income of such a single-parent family with one child and earning $15 000, or $179 if it earns $20 000, is not reflected in this table. It compensates for the disadvantages flowing from the taxation of federal family allowances, as well as the inclusion of Québec family allowances in the calculation of income tax.

- **On high-income households**

The impact of the reorganization on high-income households varies according to the extent to which such taxpayers took advantage of the QSSP prior to these measures. Taxpayers who did not participate in it prior to the introduction of these measures will pay substantially less income tax. On the other hand, those who claimed the maximum allowable QSSP deductions will pay more income tax.

This is especially true with respect to those who took advantage of the current $20 000 ceiling on deductions, which will be reduced to $10 000 in 1986, or those who purchased only eligible shares in major corporations, which deductions will be limited henceforth to $1 000 per taxpayer per year. Unless they change the makeup of their portfolios of eligible QSSP shares in favour of corporations wish less than $1 billion in assets, these taxpayers will be able to deduct substantially less than they could otherwise, and, consequently, they will have to pay more income tax.

The following table indicates the impact of the reorganization on certain typical high-income households before and after the use of the QSSP. In estimating tax burden after the reform, it has been postulated that the taxpayer will use half the average deduction claimed by taxpayers in his income bracket with respect to the QSSP. For example, the tax burden of a couple with two children from 6 to 11 and earning $75 000 a year will be reduced, in 1987, by $716, after all these measures have been allowed for.

Gain (or loss) resulting from the reorganization[1] for households in which spouses are 65 or over (in dollars)

		Single person aged 65 or over			Couple aged 65 or over		
	Employment income and investment and pension income[2]	Total income[2]	At work	At retirement	Total income[3]	At work	At retirement
In 1986	0	4 396	—	—	14 979	—	—
	10 000	13 452	-563	-110	22 343	-689	-283
	15 000	18 452	-568	-65	27 343	-730	-245
	20 000	23 452	-560	-20	32 343	-746	-214
	30 000	33 452	-528	34	42 343	-761	-205
In 1987	0	4 539	89	89	15 466	—	—
	10 000	13 562	-419	9	22 732	-618	-230
	15 000	18 562	-411	61	27 732	-650	-187
	20 000	23 562	-372	133	32 732	-638	-140
	30 000	33 562	-250	250	37 732	-586	-73
In 1988	0	4 729	119	119	16 043	—	—
	10 000	13 701	-379	53	23 189	-550	-170
	15 000	18 701	-331	107	28 189	-534	-114
	20 000	23 701	-277	189	33 189	-507	-50
	30 000	33 701	-148	315	38 189	-443	33

Note: A (-) sign indicates an increase in the tax burden.

1 The tax burden includes Quebec income tax, less tax credits, income tax refunds, family and availability allowances, as well as the transfer programs (social aid, WINSUP, subsidy for child care expenses), if applicable.

2 The pension income is equal to the investment income.

3 The total income includes employment income, pension and investment income. Also considered are the 1985 amounts for the old age security pension, the guaranteed income supplement and the maximum benefit from the Quebec Pension Plan, which are increased according to the estimated consumer price index.

TABLE
Impact of the reorganization on tax burden Including changes in the QSSP High-income earners (in dollars)

	Employment income											
	40 000			50 000			75 000			100 000		
	1986	1987	1988	1986	1987	1988	1986	1987	1988	1986	1987	1988
1. Couple with two children from 6 to 11												
One employment income												
— Impact on tax burden following changes												
• in exemptions, deductions and tax credits	581	709	875	637	775	954	742	895	1093	782	945	1156
• in the tax table and the QSSP												
— table and interaction of measures	35	70	57	146	255	235	663	1171	1136	1390	2392	2357
— QSSP[1]	-457	-468	-462	-654	-669	-663	-1283	-1349	-1342	-1554	-1640	-1640
— Subtotal	-422	-398	-405	-508	-414	-428	-620	-178	-206	-164	752	717
• Total	159	311	470	129	360	525	122	716	887	618	1696	1873
2. Childless couple												
One employment income												
— Impact on tax burden following changes												
• in exemptions, deductions and tax credits	131	241	381	141	257	405	155	286	456	160	294	471
• in the tax table and the QSSP												
— table and interaction of measures	56	106	100	172	335	317	739	1311	1282	1467	2524	2495
— QSSP[1]	-471	-476	-477	-655	-697	-690	-1292	-1372	-1372	-1554	-1640	-1640
— Subtotal	-415	-370	-377	-483	-362	-373	-553	-61	-90	-87	884	854
• Total	-284	-129	4	-342	-105	32	-398	225	366	73	1178	1325
3. Single person living alone												
— Impact on tax burden following changes												
• in exemptions, deductions, and tax credits	-27	160	260	-28	166	273	-31	183	301	-32	189	310
• in the tax table and the QSSP												
— table and interaction of measures	98	182	174	249	454	441	872	1520	1498	1599	2732	2711
— QSSP[1]	-492	-509	-506	-688	-703	-698	-1326	-1393	-1388	-1554	-1640	-1640
— Subtotal	-394	-327	-332	-439	-249	-257	-454	127	110	45	1092	1071
• Total	-421	-167	-72	-467	-83	15	-485	310	411	13	1281	1381

Note A (-) sign indicates an increase in the tax burden for taxpayers

1 Based on the average deduction noted in 1983 among taxpayers who participated in the QSSP. In the modifications, half the average current deductions with respect to the QSSP is used

On the government's financial framework

The reorganization in personal income tax will cost the government $112 000 000 in 1985-1986, $392 000 000 in 1986-1987, and $516 000 000 in 1987-1988, the fiscal year in which the reorganization is completed.

The changes to the exemptions, deductions and tax credits will cost the government more than $429 000 000 in 1987-1988, and account for the quota part of the cost of this reorganization. Approximately 64% of this amount, i.e. $275 000 000, is allocated to the exemption for dependent children or the changes therein as well as to the improvement in the deduction for child care expenses.

The cost of the measure relative to the taxation of middle and high-income taxpayers is $21 000 000 in 1985-1986 and $78 000 000 in 1986-1987. In 1987-1988, the net cost of tax measure affecting high-income taxpayers will fall to $1 000 000, due to the reduction in costs resulting from the change to the QSSP and the positive impact of the new tax table on employment and the government's tax receipts.

Changes in the property tax refund have been made while ensuring that elderly persons benefiting from the federal guaranteed income supplement and social aid recipients are not penalized. Social aid benefits will be increased on January 1, 1986; after deduction of additional federal government transfers with respect to the Canada Assistance Plan, they will represent $5 100 000 in additional costs to the gouvernement du Québec in 1985-1986, and $20 400 000 in 1986-1987. For the elderly, compensation will cost the government $25 000 000 per year.

The abolition of succession duties and the gift tax will cost $21 000 000 in 1985-1986 and $52 000 000 in 1986-1987.

Financial impact of the reorganization in of personal income tax (in millions of $)

	1985-1986	1986-1987	1987-1988
PERSONAL INCOME TAX			
Changes in exemptions, deductions and tax credits			
— Changes in exemptions and deductions	- 64.5	- 313.6	- 486.9
— Changes in tax credits[1]	—	71.8	57.9
— Total changes in exemptions, deductions and tax credits	- 64.5	- 241.8	- 429.0
Changes in the taxation of middle high-income earners			
— Changes in the QSSP	—	- 0.6	87.5
— 50% limit on fiscal expenditures	—	—	30.0
— Tax table and economic impact	- 21.4	- 77.0	- 128.6
— Total of reorgization in the taxation of middle and high-income earners	- 21.4	- 77.6	- 11.1
Subtotal: Personal income tax	**- 85.9**	**- 319.4**	**- 440.1**
Corrective measures[2] for social aid recipients	- 5.1	- 20.4	- 21.2
SUCCESSION DUTIES AND GIFT TAX			
Abolition	- 21.0	- 52.0	- 55.0
TOTAL IMPACT	**- 112.0**	**- 391.8**	**- 516.3**

NOTE: A (–) sign implies a cost for the government.

1 Includes the cost of corrective measures for the elderly.

2 Net impact taking into account the increase in federal transfers under Canada Assistance Plan.

2. MEASURES DESIGNED TO FOSTER THE GROWTH OF QUÉBEC BUSINESS

CAPITALIZATION OF CORPORATIONS

In the course of a firm's development, aside from the starting up period, there exists a deficiency which is likely to lead to high costs in financing through share capital at two crucial moments, during the first call for private share capital and during the first public distribution of shares. To be effective, an assistance policy aimed at facilitating the growth of a company must have as its main objective the elimination of the obstacles the firm must surmount.

To implement such a policy, important changes must be made in current tax advantages related to the public distribution of shares; at the same time, corporations which make calls for private share capital must be able to benefit from comparable advantages.

• THE CALL FOR PRIVATE SHARE CAPITAL

Establishment of Sociétés de placements dans l'entreprise québécoise (SPEQs)

To reduce the obstacles to calls for private share capital on the one hand, and to rectify the structural bias which various deferred tax schemes and shelters impose upon it, on the other, the government proposes to establish Sociétés de placements dans l'entreprise québécoise (SPEQs), investments in which will give rise to a tax advantage comparable to that created by an eligible investment in a Québec Stock Savings Plan. The following terms and conditions will apply to SPEQs:

— a SPEQ will be a private investment company established as a corporation under Québec legislation, after the Budget Speech. Its primary purpose will be to purchase new share capital in an eligible corporation and, to this end, it will have to be properly registered with the Société de développement industriel du Québec (SDI);

— the shareholders of a SPEQ may be individuals or private venture capital companies, as defined later in the measure concerning the extension of the QSSP to these companies. No limit will be placed on the number of shareholders of a SPEQ, nor will any limit be placed on the amount which each investor may invest in it. However, a minimum of $100 000 in the form of share capital issued, subscribed and paid will be necesary when the SPEQ is registered;

— an "eligible corporation" in which the SPEQ invests must be a private Canadian-controlled corporation with assets of less than $25 000 000, and net shareholders' equity of $10 000 000 or less. These limits on assets and net shareholders' equity will be calculated taking into account those of all the corporations with which it is associated. Moreover, the corporation's central management must be located in Québec and at least 75% of wages paid by it and, as the case may, all of the corporations with which it is associated, during the 12 months preceding the date of the investment, must have been paid to employees of an establishment located in Québec. However, rules will be introduced to govern corporations which have not been in existence for at least 12 months prior to the date of the investment. Corporations which are starting up may, therefore, benefit from SPEQ investments;

— an eligible corporation must not be related, within the meanings of the applicable regulations and legislation to the SPEQ, when the latter makes the investment and must remain so during the two following years, except where the eligible corporation experiences such financial difficulties that a takeover by the SPEQ may allow it to avoid bankruptcy;

— an eligible corporation must operate essentially in the fields of manufacturing, processing, transportation, recycling, environmental enhancement, tourism, book publication, scientific research, engineering, data processing, office automation, teleprocessing, and scientific and technical services. Furthermore, the possibility of extending this measure to other sectors will be studied. However, these fields do not include construction, agriculture, fishing, mining and oil exploration and film production, which are already covered under many other programs;

— a SPEQ must maintain its investment in the eligible corporation for at least two years; moreover, when it disposes of the investment, it must advise the Société de développment industriel du Québec accordingly;

— an eligible corporation may not benefit, in the aggregate, from more than $1 000 000 in eligible investments;

— an "eligible investment" will consist of an investment in the form of new share capital of an eligible corporation, and will entitle individuals to a deduction in the calculation of their taxable income, equal to 100% of the eligible investment, of the first $1 000 000 of an investment in an eligible firm. In the case of a private venture capital company, the eligible investment will give rise to a tax credit equal to 20%. The share acquired must be a common share with full voting rights and, after two years, such an investment will cease to be deemed an eligible investment;

— the share capital of a SPEQ may include more than one class of shares. However, only holders of common shares with full voting rights may benefit from the deduction or the tax credit;

— in the year where a SPEQ invests in an eligible corporation, the deduction or the tax credit attributable to its eligible investment may be claimed by each shareholder resident in Québec on the last day of the taxation year, or having an establishment in Québec at any time during a taxation year, as the case may be, proportionate to his participation in the common share capital with full voting rights of the SPEQ. However, the deduction claimed in a year may not exceed, with respect to an individual, 20% of his total income and this deduction will not be reduced by any deduction with respect to a contribution in a deferred tax plan or a tax shelter, such as an RRSP, an RPP, a QSSP, etc. The $10 000 ceiling on QSSP contributions is not applicable to deductions claimed with respect to an eligible investment in a SPEQ. Moreover, the excess amount of a deduction or a credit which cannot be claimed in the year may, as the need arises, be carried forward to the following five years;

— to claim the tax advantage, the shareholder must submit with his income tax return a certificate issued by the Société de développement industriel du Québec attesting to the amount of his share of the SPEQ's eligible investment with respect to which a deduction or a tax credit may be claimed;

— the Société de développement industriel du Québec will be responsible for certifying that investments constitute eligible investments; and

— a SPEQ which divests itself of an eligible investment within the two-year minimum holding period, must pay a penalty equal to 30% of the eligible investment.

Other terms and conditions will be introduced to ensure the measure's fiscal probity: buying back of a SPEQ's shares by the corporation which has benefited from the initial investment, and submission of annual reports to the Société de développement industriel du Québec.

The cost of such a measure, applicable to eligible investments effected from the time the Order in Council concerning the Programme de création de Sociétés de placement dans l'entreprise québécoise (SPEQ) comes into force, is estimated at about $20 000 000 over a full year. In this regard, and considering the new capitalization loan program which the Minister of Finance announced in the Budget Speech, the government will reduce the budget it is allocating to assistance programs for companies operating in the same fields as those covered here.

Extension of QSSPs to Include Venture Capital Companies

Henceforth, venture capital companies will be able to issue shares eligible for inclusion in a QSSP, provided that they satisfy conditions otherwise stipulated to qualify as a corporation eligible for the QSSP, except those respecting the value of assets and the number of employees. Their shares must also be listed on the Montréal Stock Exchange.

To this end, a venture capital company is defined as a corporation whose principal activity, on the date of the receipt of the final prospectus or of an exemption from filing a prospectus, consists of investing funds in the form of new share capital, which must be invested in a proportion of at least 75% in private corporations carrying on their principal activity in Québec, whose assets are less than $25 000 000 or whose net shareholders' equity is not more than $10 000 000. Moreover, the management of funds invested in a corporation must generally be ensured by a person who is not a shareholder owning more than 10% of the shares in a class of the corporation's share capital, nor a person related to such a shareholder. Similarly, funds invested initially in a corporation by a venture capital company must not exceed 10% of the funds it has available for such investments. Finally, regulations will be introduced to ensure that these companies continue to operate as venture capital companies eligible for the QSSP.

This measure will apply to share issues which occur after the Budget Speech and will cost about $2 000 000 over a full year.

Deregulation of SODEQs

It will be necessary to redefine the role of SODEQs. First, the Minister of Industry and Commerce will table a bill designed to abolish regulations governing their activities as venture capital companies. Regulations related to the proportion of their share capital which must be invested in eligible investments, those concerning the limit of the maximum amount which may be invested in the same business and those related to the takeover of the business will be abolished. Moreover, transitional provisions will be introduced in the Loi sur les Sociétés de développement de l'entreprise québécoise so that current SODEQs maintain their corporate existence under the Companies Act.

The 25% tax credit currently granted to shareholders who purchase new shares in a SODEQ will also be abolished with respect to any share purchased as of the day following the Budget Speech. These new venture capital companies may, if they so desire, make a public distribution of shares and benefit from the advantages of the Québec Stock Savings Plan, provided their shares are listed on the Montréal Stock Exchange. With respect to those which will be private corporations, they may have access to the new vehicle "SPEQ" aimed at facilitating investments in small projects.

THE PUBLIC DISTRIBUTION OF SHARES

Financial Assistance Program for the Capitalization of Corporations

• *Extension of the program*

The financial assistance program for the capitalization of corporations, introduced in 1983, facilitated the first public distribution of shares of several corporations by reducing the cost of entering the public market. Given its efficacy, this program is being reintroduced, to run until March 31, 1988.

However, the second phase of the program is being modified in two ways. First, to ensure that assistance corresponds more closely to the actual cost of entering the public market, current percentages on the basis of which assistance is calculated will be reduced to 20% for the first million dollars in eligible shares, and to 10% for the next $2 000 000, which represents total assistance of $400 000 for a share issue of $3 000 000 or over. Second, to ensure that the costs of subsequent share issues are reduced, given the additional information which will be available to future investors, eligible shares must henceforth be listed on the Montréal Stock Exchange to be eligible for a grant, and the grant may only be paid as of then.

With respect to a partial refund of costs related to a feasibility study, the current program will apply to costs incurred starting on the day after the Budget Speech and to any claim for such a refund presented to the SDI prior to April 1, 1988. In the case of a refund of the costs of launching a first public distribution of shares, it will apply to any eligible share included in a share issue which begins after the day on which the Budget Speech is tabled, and which is purchased, subscribed to and paid for prior to April 1, 1988.

Over one full year, this measure will reduce the cost to Québec companies of a first public distribution of shares by $5 000 000.

- ***Technical modifications***

A number of technical modifications will also be made to the financial assistance program for the capitalization of corporations, in order to facilitate its application. Most of these consist of adjustment measures, including, in particular the introduction of the requirement of submitting the claim related to assistance concerning a feasibility study prior to submitting the preliminary prospectus to the Commission des valeurs mobilières du Québec. Moreover, to be eligible for assistance covering the cost of entering the public market, the corporation must, from now on, demonstrate not only that it has never made a public distribution of shares through a prospectus, but that the shares of its share capital have never been covered by a secondary issue on the public market although they are now listed on the stock exchange.

Québec Stock Savings Plan

- ***Changes in rates of deduction***

While maintaining both the objective of facilitating share issues by small and medium-sized businesses and that of sparking the interest of Quebecers in the stock market, the rates of deduction for shares eligible for inclusion in the QSSP are being changed.

As of January 1, 1986, the deduction with respect to share purchases in corporations whose assets exceed $1 billion will reach a ceiling of $1 000 per year. With respect to eligible shares in other corporations, the rates of deduction to which purchases actually entitle taxpayers will be reduced. To this end, brokers or other authorized persons must, as of this date, indicate separately, on sheets to be forwarded to the taxpayers, the adjusted cost of shares of corporations with assets in excess of $1 billion. The following table outlines the new rates of deduction in relation to current ones.

Rates of deduction for shares eligible for inclusion in the QSSP

	Shares purchased prior to January 1, 1986	Shares purchased as of January 1, 1986
Developing corporation		
— common share with full voting rights	150	100
— subordinate share with voting rights	100	75
— preferred share convertible to common share with full voting rights	150	100
— preferred share convertible to subordinate with voting rights	100	75
Share of a corporation with assets over $1 billion		
Other corporation	50	50[1]
— common share with full voting rights	100	75
— subordinate share with voting rights	75	50

1 A ceiling of $1 000 per year per taxpayer is placed on the deduction

These new rates will apply with respect to shares purchased from January 1, 1986. However, the shares purchased from that date and issued within the scope of a share issue that started before midnight on the evening of the Budget Speech will be eligible for the rate of deduction that was applicable to them previously.

• ***Reduction in the ceiling of eligible contributions to the QSSP***

To ensure balance between supply and demand for the eligible shares of small and medium-sized businesses and to prevent high-income taxpayers from benefitting from an excessive tax saving as a result of the reduction in the marginal tax rates, the ceiling on contributions for shares eligible for inclusion in a QSSP will decrease from $20 000 to $10 000 starting with the 1986 taxation year.

• ***"QSSP Investment Partnerships"***

To enable investors who wish to do so to reduce risks in their QSSP portfolios, QSSP investment partnerships may be established as of the day following the Budget Speech. Such partnerships may purchase shares eligible for inclusion in a QSSP; owners of shares in the partnership will be able to claim the deduction.

Investment partnerships recognized for the purpose of the QSSP will be those which group together individuals in a registered partnership established exclusively for the purpose of acquiring shares which are eligible for inclusion in a QSSP. A partnership declaration, indicating the amount of the annual contribution made by each member must be submitted to a broker.

A partnership will not be allowed to increase the number of its members. However, a member may withdraw from the partnership without any consequences to the remaining members, for the purpose of the Québec Stocks Savings Plan. In this regard the withdrawing member will be deemed to have transferred his share to the remaining members who will be deemed to have acquired it as a purchase reserve at the prorata of their participation in the partnership. This deemed purchase will not, however, entitle the remaining members to an eligible deduction under the QSSP. The broker or other authorized persons will also have to issue a sheet to the withdrawing member, giving the following information:

— his share of the adjusted cost of the shares acquired by the partnership during the year up to the date of his withdrawal;

— his share of the adjusted cost of the shares sold by the partnership during the year up to the date of his withdrawal;

— his share of the adjusted cost of the shares eligible for inclusion held by the QSSP investment partnership on the date of his withdrawal.

The withdrawing member will have to account for a withdrawal, for the purposes of his QSSP, of his portion of the adjusted cost of the shares held by the partnership on the date of his withdrawal.

The broker or other authorized persons will also have to issue a sheet for each remaining member indicating his share of the adjusted cost of the purchases and sales of eligible shares effected by the partnership in the year and of his portion at December 31 of a given year, of the adjusted cost of eligible shares of a withdrawing member and this, to permit the remaining member to establish a reserve for deemed purchase. This reserve for deemed purchase will be such as to prevent the future sale of shares which have entitled the remaining member to a deduction to the QSSP from resulting in an inclusion in the income of the remaining member, since the future sale of those shares will be accounted for as a real sale, consequently as a withdrawal in the year for each of the remaining members.

• ***"QSSP Investment Funds"***

The possibility of providing for the creation of "QSSP investment funds" administered by professional managers should be considered. The funds could be unincorporated mutual funds or mutual funds. These funds would be authorized to purchase securities issued by corporations which qualify for the QSSP, according to preestablished standards or ranges as regards the class of investments to be made by these funds and the deduction to which they would give entitlement.

Purchases, by individuals, of units or shares in these funds, would be effected by a stock broker. These units or shares, which would be securities eligible for the QSSP, would be treated identically to shares currently eligible for the QSSP. Finally, these QSSP investment funds would be authorized, for a certain proportion of funds invested, to acquire an interest in private corporations.

However, it seems that the question should be analysed further before allowing for the constitition of such funds which could be introduced on January 1, 1986, and that in-depth studies and consultations should be pursued during the months to come.

• ***Impact on the cost of the QSSP***

All of these changes in the Québec Stock Savings Plan should reduce its cost by $90 000 000 during the 1986 taxation year.

• STOCK OPTIONS GRANTED TO EMPLOYEES

From now on, when a corporation reaches an agreement with its employees in order to sell them or attribute to them a certain number of shares in its share capital and the employees subsequently exercise the option of acquiring the shares, current provisions in Québec tax legislation will no longer stipulate that the difference between the value of the share at the time the option is exercised and the price paid to acquire the share constitute employment income for the employee. Instead, the difference, or intrinsic value, will only be taxed when the share is sold, and then, as a capital gain. However, an employee who wishes to take advantage of these relaxed rules must, in the case of an agreement reached with a private corporation, keep the share acquired in this manner for at least two years and, in the case of an agreement reached with a public corporation, the price of exercising the option to acquire the share must not be lower than the fair market value of the share at the time the option is granted.

This measure, which applies to agreements reached after the day of the Budget Speech, will encourage the participation of employees and managers in the capitalization of their company by emphasizing greater productivity and, consequently, an increase in profitability.

COOPERATIVE INVESTMENT PLAN

The 1984-1985 Budget Speech announced the establishment of a cooperative investment plan (CIP) aimed at enabling Québec cooperatives to increase their equity. Mention was made of the fact that the Minister of Industry and Commerce, who is responsible for cooperatives, would hold the appropriate discussions in order to spell out the terms and conditions of the plan.

These consultations have now been completed; the characteristics of the CIP can now be outlined for the purpose of adopting legislation establishing the plan and the tax credit related to it.

Tax deduction

To encourage members of cooperatives to increase the capital of their cooperatives, a tax advantage comparable to that granted to an investor in a developing corporation eligible for inclusion in the Québec Stock Savings Plan (QSSP) will be granted to members of cooperatives who acquire preferred shares in an eligible cooperative.

An individual eligible to contribute to a cooperative investment plan may, in calculating his taxable income, deduct, in a manner similar to that of an individual investing in a Québec Stock Savings Plan, 100% of investments made in such a plan. The maximum amount deductible will be equivalent to that in a QSSP, i.e., the total amount, up to $10 000, but not exceeding 20% of total income less contributions to a Registered Retirement Savings Plan (RRSP), a Registered Pension Plan (RPP), the Fonds de solidarité des travailleurs du Québec (FTQ) and a QSSP. Individuals who may benefit from this deduction are members or employees of an eligible cooperative.

Eligible cooperatives

Cooperatives authorized to issue preferred shares which are eligible for the cooperative investment plan include Québec producing, processing, agricultural and workers' cooperatives governed by the Cooperatives Act. More specifically, shares issued by savings and credit unions, consumer cooperatives whose services and goods offered to members or whose patronage dividends granted to members are not taken into account in the calculation of income, and other cooperatives with the same characteristics, will not be eligible for the cooperative investment plan. In the case of mixed cooperatives, at least 90% of the cooperative's activities must be activities which make the cooperative otherwise eligible for the purpose of the CIP.

Eligible securities

Securities eligible under the cooperative investment plan will consist of preferred shares bearing interest at a set maximum, non-cumulative rate, payable annually when decided by the board of directors, to the extent that surplus earnings in the fiscal year allow, and whose issue has been authorized by the appropriate authorities. To be eligible under a cooperative investment plan, a preferred share must, moreover, be purchased by the individual eligible as a first purchaser after the date on which the new plan has come into effect and it may not be deducted as a contribution to a QSSP.

Conditions for redeeming shares

To ensure that shares eligible under the CIP effectively increase the cooperative's permanent capital, shares eligible for the plan may only be redeemed by the issuing cooperatives under the following conditions.

Generally, shares may only be redemeed in the year following the three years following their issue, provided that the reserve, as it appears in the cooperative's financial statement in the year preceding the year during which the issue was launched, has increased by at least 50% of the amount of redemption. Where a cooperative has made more than one issue of preferred shares eligible for inclusion in the CIP, these shares will be redeemable, upon request, according to their age. Moreover, redemptions already carried out will be taken into account in calculating the increase of the reserve.

In the case of the redemption of a security whose owner has reached the age of 65, or 60 if he is retired, the redemption may only take place, as under the general rule, starting in the year following the three years following its issue. However, to facilitate the redemption under these circumstances, the obligation to increase the reserve may be effected by the cooperative in a subsequent year, but prior to any other purchase. At the time of such redemptions, the cooperative will still be obliged, in future, to increase its reserve by at least 50% of the amount of the securities redeemed. The same applies in the case of the resignation or the exclusion of an owner; however, in this case, the security must also be owned one full year from the date of the resignation or exclusion.

Securities will be redeemable at any time and without restrictions following the death, the disability or the interdiction of the owner.

Other provisions

To prevent a cooperative, through an exchange of its share capital and preferred shares for shares eligible for inclusion in the CIP, from benefiting from the CIP on the value of share capital and preferred shares issued prior to the Budget Speech, the stipulation is made that at all times, the member equity in a cooperative which is not made up of securities issued for the purpose of the CIP must be equal to at least 80% of such equity as it stands on the evening of the Budget Speech.

A cooperative which redeems a share issued for the purpose of the CIP without having fulfilled the conditions for redemption or which contravenes another provision of the CIP must pay the Minister of Revenue a penalty equal to 50% of the amount of the securities to which the infraction is related.

The Minister of Industry and Commerce, together with the ministère du Revenu, will be responsible for administering the cooperative investment plan. In this respect, the plan will take effect as soon as the legislation or regulations providing for the means of applying the plan have been adopted.

BROADENING OF THE DEDUCTION FOR QUEBECERS WORKING ABROAD

An individual working outside Canada for at least thirty consecutive days may, in calculating his income, deduct part or all, as the case may be, of his income earned abroad. To be entitled to such a deduction, he must work for a Canadian employer, and his duties must be related to a contract under which the Canadian employer operates a recognized business in the foreign country where the individual is working. Recognized businesses are currently limited to those in the realm of oil and natural gas exploration and drilling, mining exploration and development, or the search for, and development of, similar resources, or businesses in the fields of agriculture, construction, installation, engineering, or the installation of data processing, office automation or teleprocessing systems.

To foster the development of international markets by Québec firms in other sectors, recognized activities will include businesses related to scientific and technical services abroad, and management and administrative activities related to businesses or activities covered by this measure. Employees of the federal or provincial governments, of a municipality or a school board do not qualify for this deduction.

This measure will apply to employees who leave Canada after midnight on the evening of the Budget Speech to engage in such employment abroad, and to individuals who had left Canada before midnight on the evening of the Budget Speech for the same reason, and who subsequently concluded a new contract with the employer.

This measure will encourage access to international markets for other Québec firms by improving their competitiveness. The cost to the government of this measure will depend upon the success of the firms in question in concluding new contracts abroad.

MEASURES TO ENCOURAGE THE DEVELOPMENT OF AN INTERNATIONAL FINANCIAL CENTRE IN MONTRÉAL

Specific measures are being introduced to encourage financial institutions and other agencies in the financial sector to bring their international financial operations to Québec.

As of January 1, 1986, revenues derived from the operations of establishments in a recognized international financial centre (IFC) will be exempt from income tax. Moreover, the paid-up capital of such establishments will not be subject to the tax on capital. Employers' contributions to the health services fund will not be payable when they relate to the wages of employees whose activities are exclusively devoted to the operations of an international financial centre.

Moreover, to assist financial institutions and other agencies in the financial sector in recruiting staff specialized in international financial transactions in Canada and abroad, tax advantages will be granted as of January 1, 1986, to employees of an international financial centre for services they render in the course of their employment where the duties they perform lead them to effect, exclusively for their employer, international transactions on which the centre's activities focus.

These tax advantages are of the same nature and pursue the same objectives as those currently applying to Québec workers abroad, whose purpose is precisely to favour access of certain Québec businesses to international markets. Employees of an international financial centre in Montréal who did not reside in Canada prior to starting work at the international financial centre, will benefit from complete exemption from Québec income tax during the first two years of professional employment in Québec. After two years, these employees and all others in an international financial centre in Montréal who fulfil the requirements outlined in the preceding paragraph, will benefit from a tax exemption on allowances paid to them, without exceeding 50% of the basic wage they earn in performing duties related to the international activities of an international financial centre.

To be recognized as such, an international financial centre must be a distinct branch of a financial institution or other agency in the financial sector. To this end, it must occupy distinct quarters and maintain separate accounting. Its activites must be carried on in Montréal and may deal with the following international transactions:

- The acceptance of deposits from non residents of Canada;
- loans granted to non residents of Canada to the extent that such funds are employed outside Canada;
- the issue and acceptance of letters of credit covering transactions which do not affect Canada, where the purchaser and the vendor reside outside Canada and the goods are not Canadian exports or imports into Canada;
- financing or refinancing of transactions covered by the preceding paragraph through letters of exchange between foreign banks or other international financial centres;
- the purchase and sale of securities from which funds would be used outside Canada;
- technical assistance for financing respecting transactions effected abroad and which do not in any way affect Canada;
- the execution of exchange transactions;
- loans and deposits between international financial centres;
- the subscription of securities issued by non-resident Canadian issuers invested abroad for non residents;
- the negotiation as foreign securities principal, of option contracts or futures contracts involving international securities, currencies or other international financial instruments;
- the management of funds or securities owned by non-resident Canadians abroad.

Moreover, analyses will be carried out by January 1, 1986, to determine the advisability of extending to other types of financial activities the operations that can be carried out in an international financial centre.

All of these measures should enable the city of Montréal to increase its importance on international financial markets and ensure the presence of international financial institutions in Montréal. The impact of this measure on government revenues will depend upon the ability of financial institutions and other organizations in the financial sector to attract international operations to Montréal.

IMPROVEMENT IN THE TAX SYSTEM AS IT APPLIES TO MINING

MINING DUTIES

At present, duties payable by the operator of a mine in Québec on his annual profit are determined according to a sliding taxation scale from 15% to 30%, depending on the profit of the operator. Moreover, the mine operator, in calculating his annual taxable profit, may deduct an exemption of $250 000.

To enhance operators' profitability in the Québec mining sector and increase their competitiveness while reducing their unit production costs and pursuing the objective of simplifying the tax system as it applies to mining companies, important changes are being made in Québec mining duties.

Reduction of rates and introduction of a credit on duties which can be carried over

First, as of midnight on the evening of the Budget Speech, mining duties payable on annual profits will be established according to a single 18% rate which replaces the current table of progressive rates. Second, as of the same moment, the deduction of $250 000 from annual profits will be replaced by a $90 000 duty credit, equivalent to a $500 000 deduction from the annual profit, deductible from duties payable. The portion of this $90 000 credit which is unused in the year may be carried over, against duties payable, in the three succeeding years.

The single rate in the taxation structure respecting mining duties will encourage mining companies to increase their efficiency, and the carrying over to the three succeeding years of the unused credit on duties will mean that certain mining concerns will only pay mining duties once they have reached a minimum level of profitability.

Transitional provisions will also be established for a fiscal period which overlaps the date of introduction of the reform such that the new measures apply in proportion to the number of days in the fiscal period included after this date. Moreover, as rules respecting the forward averaging of annual profits are no longer useful, they are abrogated effective the evening of the Budget Speech.

Credit on duties refundable for losses

At present, a mine operator who sustains a loss in a year may convert this loss into a credit on duties applicable against duties payable in the following four years.

To enable a mine operator to realize in the year of an investment the tax value attached to this investment, a credit on duties refundable for losses is being introduced as of midnight on the evening of the Budget Speech. For the purpose of this section, a mine operator does not include the operator of a quarry, a sand pit and certain water wells, or one whose activities are limited to exploration. Beginning with fiscal periods ending after the evening of the Budget Speech, a mine operator will have the choice, when he files a declaration of annual profits, of claiming a refundable credit on mining duties related to certain of his expenses and part of his investments. The amount of the refundable credit will equal the lesser of 18% of the loss for the fiscal period during which it is incurred or 18% of the eligible amount. The eligible amount which entitles the operator to the refundable credit will equal the aggregate of deductions claimed in the year with regard to mine exploration and development expenses incurred and borne by the operator following the evening of the Budget Speech, and the deduction with respect to the depreciation allowance claimed for the fiscal period in question, in relation to the cost of property acquired and effectively used in mining operations after the evening of the Budget Speech. However the credit for refundable duties will correspondingly reduce the deduction for losses which might otherwise be carried over.

With regard to a fiscal period which overlaps the evening of the Budget Speech, transitional provisions will be introduced concerning the credit on refundable duties in order to ensure that it only applies to the part of the loss attributable to the part of the fiscal period commencing after the evening of the Budget Speech and ending at the end of the fiscal period.

Extension of the period for carrying over losses

At present, 15% of a mine operator's losses may be carried over to the four fiscal periods following that in which the loss occurred.

In order to take into account the reform of the tax table of mining duties, the rate of a loss which may be carried over is being increased from 15% to 18% with respect to losses incurred after the evening of the Budget Speech. Transitional provisions will be adopted with respect to a fiscal period overlapping that time.

Moreover, in order to better harmonize rules respecting the carrying over of losses of mining duties with those applying to income tax, changes will be made to allow the carrying over of a loss to the three preceding and seven succeeding years.

INCOME TAX

Additional deduction respecting exploration expenses incurred in Québec

At present, in calculating his income for a taxation year, an individual may deduct, in addition to all his exploration costs incurred in Canada, an additional allowance equal to $66^2/_3\%$ of exploration costs incurred in Québec prior to January 1, 1986, and related to a mineral resource or an oil or natural gas well in Québec.

In order to continue to encourage the discovery of mines and oil and natural gas wells in Québec and facilitate the financing of Québec businesses or limited partnerships operating in these sectors, the additional allowance of $66^2/_3\%$ is being extended for exploration expenses incurred in Québec between December 31, 1985 and January 1, 1988.

However, to better orient this measure toward its objective of facilitating the financing of Québec exploration concerns which do not have resource earnings, the $66^2/_3\%$ deduction may only be deducted for expenses incurred after December 31, 1985 by an individual who incurs, prior to January 1, 1988 in Québec, Canadian exploration expenses with respect to a mineral resource, or an oil or natural gas well that he owns and which is located in Québec or with respect to such a resource or well owned by an eligible corporation or partnership.

In this regard, an eligible corporation means a corporation whose principal activity is exploration or the development of a mineral resource or an oil or natural gas well, with the exception of any activity related to the exploitation of a mineral resource or an oil or natural gas well, and which is not directly or indirectly controlled by another person not engaged in exploration activities or the development of a mineral resource or an oil or natural gas well.

An eligible partnership is one in which all expenses, where assumed for corporations, are assumed for corporations which are themselves eligible corporations.

IMPACT OF THE MEASURES CONCERNING THE TAXATION OF MINING

Over a full year, these measures will general benefits of $15 500 000 the mining sector.

TAX PRIVILEGES APPLYING TO FARMS AND WOODLANDS

Since the Act respecting municipal taxation was adopted in 1979, tax privileges incur to property recognized as "farms and woodlands." The purpose of these privileges is to encourage the development of farms and woodlands by reducing the tax burden of the owners and occupants of such properties. Until now, two departments were responsible for administering these tax privileges: the ministère de l'Agriculture, des Pêcheries et de l'Alimentation administered partial refunds of 40% or 70% of property taxes and the cost of certain municipal services for farms and woodlands belonging the farmers; the ministère des Affaires municipales paid the compensation of municipal corporations for the $375/ha ceiling on the taxable value of land, and 2% for the rate of taxation on the taxable real estate value of land, buildings and residences. Thus, two plans apply to the owners of woodlands, depending on whether or not they are farmers.

As the goal of the gouvernement du Québec is to further encourage the development of the forest industry through the maximum development of private Québec forests, it has become imperative to remedy the negative effects of local taxation on this industry's development. The current tax system accentuates the problem of the availability of wood to the extent that it is less advantageous to timber producers to develop their woodlands; indeed, they gain by deforesting them in order to reduce their tax burden.

Consequently, a program of property tax refunds for timber producers is introduced which will correspond to 85% of taxes paid on productive assets, except residences, thereby replacing the current system which provides for ceilings on the taxable value of $375/ha and on the taxation rate of 2% of the taxable real estate value of the woodland.

The new system will only be open to timber producers actively engaged in managing and developing their woodlands and who own a certificate issued for this purpose by the ministère de l'Énergie et des Ressources. This certificate must accompany the application for a refund. The ministère du Revenu will be responsible for administering the refund of property taxes.

The new system will apply starting with the 1986 municipal fiscal period and timber producers may claim a refund of property taxes when they file their 1985 income tax returns. It is estimated that this measure will cost $9 000 000 per year.

With respect to the farms and woodlands belonging to farmers, the ministère de l'Agriculture, des Pêcheries et de l'Alimentation will examine the possibility of reviewing the current system on the basis of the new refund program applicable to timber producers.

CLARIFICATION OF MUNICIPAL TAXATION OF BUSINESSES

When the reform of municipal taxation was carried out in 1980, the first paragraph of section 65 of the Act respecting municipal taxation was written in such a way that it would limit the exclusions stipulated on the municipal assessment rolls only to machines, equipment and their accessories used primarily for the purpose of industrial production or the operation of a farm, provided their purpose is not to ensure a service on a lot or in a building.

However, section 65.1 poses problems of interpretation, such that municipalities have added to the taxable assessment roll property which the government would have preferred to see excluded, and businesses have contested the broadening of the tax base to include certain property which the government wished to see taxed. Recent decisions by the Bureau de révision de l'évaluation foncière (BREF) and pressure exercised by municipalities and businesses have led the government to examine proposals aimed at solving the problems related to the application of this section.

During the current session, the Minister of Municipal Affairs will introduce a legislative amendment modifying section 65.1 and clarifying the tax situation of businesses in keeping with the spirit the 1980 reform.

3. HYDRO-QUÉBEC

The Hydro-Québec Act will be amended to restructure the share capital held by the Minister of Finance and create a class of preferred shares. The amendments will permit the Minister to sell a portion of the preferred shares he will be holding.

Although this government corporation enjoys tax immunity, as an agent of the Crown, the shares subscribed or sold to people other than the Minister of Finance cannot exceed 10% of the corporation's outstanding capital stock. The purpose of this restriction is to preserve the non-taxable nature of Hydro-Québec's wholly owned subsidiaries.

In view of this restriction and in order to maximize the possible volume of shares that can be held by private shareholders, the outstanding capital stock of the government corporation will have to be increased. The Act will have to provide for the conversion of accrued benefits into shares and the increase in Hydro-Québec's authorized capital.

Finally, it must be mentioned that this operation in no way affects Hydro-Québec's financial position including the financial ratios such as the capitalization rate and interest coverage. The dividends payable to holders of preferred shares will be paid out of the dividend receivable by the Minister of Finance under the current Act.

4. ESTABLISHMENT OF A RESOURCE DEVELOPMENT FUND

The Budget Speech discusses the establishment of a Resource Development Fund commencing in the 1985-1986 fiscal year. The purpose of the new fund will be, first and foremost, to reallocate government budgetary revenues related to exploitation, development or production in the resource sector, in order to allocate them to the maintenance, development and transformation of Québec resources. Moreover, it will make it possible to redirect proceeds from the disposal of assets held by the government in government corporations toward new investments in the resource sector. The financial transactions of the Resource Development Fund will thus be budgetary and non-budgetary in nature.

With respect to the budgetary phase, legislation establishing the Resource Development Fund will specifically identify certain revenues previously destined for the consolidated revenue fund, so that, henceforth, they are credited to the new fund. Such revenues include, in addition to all dividends received from government-owned corporations involved in the resource sector, those appearing as revenues from "royalties and licences", under the headings "forest resources", "mining resources" and "water resources"; they also cover, in particular, timber cutting royalties, those related to electrical energy produced, to mining operations and those on lumbering operations.

Expenditures which may be made by the Resource Development Fund will be directed, through legislation, to activities and development projects in the resource sector. Appropriations related to expenditures designated for financing by the fund will, from now on, be statutory up to and including the resources available in the fund which will be allocated to them; remaining expenditures must be covered by appropriations to be voted if need be. In order to ensure the optimum allocation of the Resource Development Fund among various designated programs and adequate control over the funds in question, the distribution of revenues added to the fund must be authorized by the Conseil du trésor, with the possibility of recalling and reallocating appropriations if need be.

With respect to the non-budgetary phase of the Resource Development Fund's operations, it will be aimed at concretizing the government's decisions with regard to investments, loans or advances it owns in its corporations. Proceeds from the disposal of certain assets owned by the government in these corporations may be attributed to the fund, which may make new investments, in the form of share capital, investments, loans or advances in corporations, with a view to financing projects related to the maintenance, development or the processing of resources.

In the interest of administrative simplicity, and bearing continuity in mind, i.e., to avoid altering the presentation of government accounts such as they have been for the past several years, the results of the financial transactions of the Resource Development Fund will be presented jointly with those of the operations of the consolidated revenue fund and the health services fund.

5. TAX ON CAPITAL

AGRICULTURAL CORPORATIONS

Presently, a corporation, including an agricultural corporation, must pay a tax of 0.45% on its paid-up capital. As of midnight on the evening of the Budget Speech, corporations, whose principal source of income is agriculture will be permitted to deduct an amount of $300 000 in computing their paid-up capital. However, in no case may the tax payable by such a corporation be less than $50. In the case of corporations whose fiscal period overlaps the day of the Budget Speech, transitional provisions will be introduced to take into account the portion of the fiscal period elapsed after that time.

Farmers will benefit, over a full year, from reductions of their tax burden totalling $3 000 000.

OIL REFINING COMPANIES

At present, any corporation engaged in refining oil in Québec or which allows its facilities to be used for this purpose must pay, in addition to the general tax on capital, an additional tax equal to 2% of its paid-up capital. Where such a corporation also has an establishment outside Québec, the tax payable by the corporation is determined on the basis of the proportion of its business carried on in Québec to all its business carried on in Québec and elsewhere. This proportion is currently determined according to gross income and wages and salaries paid by the corporation in Québec and elsewhere.

This tax does not currently apply to corporations which only refine oil outside Québec but which sell their products in Québec. Thus, corporations engaged in refining oil now bear, for each litre of gasoline sold in Québec, a heavier tax burden where they refine in Québec than if they refine outside Québec.

In order to more equitably distribute this tax burden among all corporations engaged in refining which sell oil or fuel in Québec, the tax will be extended to cover any corporation refining oil outside Québec or allowing its facilities outside Québec to be used for this purpose, having an establishment in Québec and selling there oil or fuel covered by section 4 of the Fuel Tax Act. This tax will also apply, henceforth, to any corporation which sells in Québec the products mentioned above, and which has an establishment there, if it is linked to a corporation engaged in refining or allowing its facilities to be used for this purpose. Moreover, the proportion of business carried on in Québec in relation to that carried on outside will only be calculated according to the corporation's gross income earned in Québec in relation to its total gross income.

In order to maintain the level of government revenue derived from this tax taking account of the broadening of the tax base, the rate of the additional tax will be reduced from 2% to 1% and the deductions currently allowed with regard to the tax will continue to apply.

These measures will neutralize the additional tax with respect to corporations which refine oil in Québec, in relation to those which are engaged in refining outside Québec. They will apply to the corporations' taxation years which begin after midnight on the evening of the Budget Speech.

6. CONSUMPTION TAXES

TOBACCO TAX

As of midnight on the evening of the Budget Speech, the tobacco tax which is currently 55% will be increased to 60%. In the case of cigarettes, the rate of the tax is currently applied on an average selling price determined from time to time on a carton of 200 cigarettes. Henceforth, this rate will be applied on an average selling price for a pack of 25 cigarettes. As of midnight on the evening of the Budget Speech, this price is set, before tax, at $1.50.

Any person who sells tobacco, cigars and cigarettes must make an inventory of all these products on hand as at midnight on the evening of the Budget Speech and remit the tax at the new rate and according to the new average retail selling price of cigarettes, after deducting the part already paid, using the form furnished by the ministère du Revenu for that purpose.

These changes represent an increase of $0.25 per pack of 25 cigarettes, i.e., 11.6% of the selling price to consumers. The increase is $0.20 on a pack of 20 cigarettes and $2.01 on a carton of 200 cigarettes.

To maintain the contribution to financing the Olympic deficit at a level equivalent to 24.545% of current revenues from the tobacco tax, calculated at the rate of 55% of the average selling price of a carton of 200 cigarettes, this contribution will be reduced to 17.974% of the tax collected as soon as the new measures come into force. However, to take into account an amount of $10 000 000 recoverable from Loto Canada in 1985, the rate will be reduced to 16.681% for the period starting as midnight on the evening of the Budget Speech until April 30, 1986.

This modification in the tax will generate an additional $133 000 000 for the 1985-1986 fiscal year.

RETAIL SALES TAX

• Insurance premiums

At present, the 9% retail sales tax does not apply to insurance premiums. As of midnight on the evening of the Budget Speech, this tax will apply to insurance premiums paid after that time.

Life, health and physical integrity insurance

As of midnight on the evening of the Budget Speech, any person resident in Québec or carrying on business in Québec will have to pay tax on premiums paid after that time on insurance covering the insured's life, health or physical integrity.

However, in the case of a person carrying on business in Québec and elsewhere, this tax will only apply to the premium paid with respect to insurance covering the life, health or physical integrity of an insured person residing in Québec.

Moreover, the tax will not apply to the part of the premium representing savings.

Other insurance

With regard to all other types of insurance, any person who pays the premium after midnight on the evening of the Budget Speech will have to pay the tax on the premium attributable to the realization of a risk in Québec.

However, in the case of a person carrying on business in Québec and elsewhere, only that part of the premium attributable to the realization of a risk in Québec will be taxable. Under these circumstances, where the risk arises from the use of property in Québec and elsewhere, the taxable portion of the premium will be calculated on the base of the property's use in Québec. In other instances, the portion of the risk which is realizable in Québec will be calculated according to the proportion of business carried on in Québec.

In the interest of accuracy, taxable premiums will include those paid under the Deposit Insurance Act, insurance fees paid under the Act respecting farm-loan insurance and forestry-loan insurance, the portion of sums payable at the time of issue of driver's licences and automobile registrations related to insurance and collected by the Régie de l'assurance-automobile du Québec, and premiums, dues and fees paid under Canadian legislation related to insurance, excluding those paid under the 1971 Act respecting unemployment insurance, the Crop Insurance Act, the Act respecting farm income stabilization insurance, the Act respecting occupational health and safety, and the Act respecting the Régie de l'assurance-maladie du Québec.

The tax will not apply to premiums paid by an insurer to a reinsurer when a reinsurance contract is signed.

Collection of the tax

An insurance broker, as defined in the Insurance Brokers Act, governments or one of their organizations acting as an insurer or an insurer or a special broker as defined in the Act respecting insurance, must collect the tax, as an agent, on the premium remitted to him. Moreover, an insurer, as defined in the Act respecting insurance, must collect the tax remitted to a broker outside Québec with whom he deals. However, in the case of a person who carries on business in Québec and elsewhere, this person must personally remit the tax payable with respect to the premium attributable to the realization of a risk arising from the use of property in Québec and elsewhere. In the latter case, and where a person acts as an agent, such a person must be registered with the ministère du Revenu in order to remit the tax. When the tax is not collected, it must be remitted directly to the Minister by the person paying the premium.

This measure represents revenues for the government of about $396 000 000 for the 1985-1986 fiscal year.

- **Collectors' coins and stamps**

At present, the retail sales tax does not apply to the purchase of collectors' coins and new stamps.

As of midnight on the evening of the Budget Speech, such purchases will be taxed. The current exemption contained in the legislation to this effect will be amended such that it no longer applies to coins and new stamps purchased for a price higher than their nominal value.

This measure will generate additional income of $1 000 000 in 1985-1986.

- **Sale and rental of films and videocassettes**

At present, sales and rentals of cinematographic films and video tapes carrying a visual recording are exempted from the retail sales tax, regardless of how they are used.

As of midnight on the evening of the Budget Speech, exemption from the sales tax applicable to such sales and rentals will be restricted to sales and rentals for the purpose of public broadcast by a cinema or a television station.

This modification will generate $6 500 000 in additional revenue over a full year.

- **Food for house pets**

Currently, all food purchases are exempted from the retail sales tax.

As of midnight on the evening of the Budget Speech, the retail sales tax will apply to purchases of food destined for consumption by house pets.

This measure will generate additional revenue of $12 000 000 for 1985-1986.

- **Goods intended to remedy a physical impairment**

At present, prostheses and orthopedic devices and, under certain conditions, the purchase of goods intended to remedy a physical impairment, are exempted from the retail sales tax.

As of midnight on the evening of the Budget Speech, such exemptions covering these purchases will be broadened to include component parts or spare parts for these goods and materials used to repair or manufacture them.

Moreover, only persons suffering from a handicap or a physical impairment, their mothers, fathers or their tutors may benefit from the exemption from the tax at the time of purchase of goods intended to remedy a physical impairment. Other persons who purchase such goods for the use of a person suffering from such an impairment or infirmity are entitled to a refund of the tax.

To simplify administration of the legislation, establishments as defined in an Act respecting health services and social services may, as of midnight on the evening of the Budget Speech, purchase such goods exempt from tax instead of obtaining a refund after making the purchase, as is presently the case.

- **Goods purchased by Indians**

At present, the sale of goods to an Indian effected in a reserve is exempted from the retail sales tax, as is the case for the sale to an Indian effected outside the reserve where the goods are delivered by the vendor to the reserve for consumption or use by the Indian there.

As of midnight on the evening of the Budget Speech, this deduction will be broadened to include sales made to Indian bands.

- **Goods imported into Québec for use or consumption**

At present, the taxable value of goods coming from outside Canada, when the latter are brought to Canada for use or consumption, does not include the value of customs duties nor that of the federal sales tax, transportation costs and other related costs when they are paid directly by the consumer or user.

To ensure that goods coming from outside Canada benefit from tax treatment equivalent to that applicable to goods from Canada, the Retail Sales Tax will be amended.

As of midnight on the evening of the Budget Speech, the taxable value of imported goods will include, regardless of where they were bought, customs duties, the federal sales tax, transportation costs and other related costs paid on these goods. This measure will make the tax neutral with respect to the acquisition of goods from Canada in relation to the acquisition of goods coming from outside Canada.

- **Sales of trees, shrubs and other plants**

At present, sales of bulbs, shrubs, trees and other plants, including containers worth less than $5 in which such plants are found at the time of sale, are exempt from the retail sales tax.

As of midnight on the evening of the Budget Speech, only purchases of bulbs, shrubs, trees and other plants, used by a business which cultivates them for resale purposes or used solely for the purpose of reforestation, will be exempt from the tax.

This measure will generate additional revenue of about $9 000 000 for 1985-1986.

- **Refunds with regard to the federal sales tax**

At present, the tax applies to the purchase price of movables, which includes the federal tax if applicable. Under certain circumstances, the purchaser may obtain the refund of the federal sales tax without this resulting in any reduction of the provincial sales tax due.

To avoid discrimination with regard to people authorized to effect purchases free of the federal sales tax, changes will be made so that, after midnight on the evening of the Budget Speech, refunds of the tax paid on the amount of the federal sales tax can be made.

7. MISCELLANEOUS MEASURES

- **Interest on loans to purchase automobiles**

At present, an individual may, in computing his income from employment, and under certain conditions and according to certain ceilings, deduct the interest he paid during the year on a loan he contracted to purchase an automobile he uses for his work. When this loan is contracted with his employer and the interest rate charged is lower than the market rates, the difference constitutes, for the employee, a taxable employment benefit.

However, an individual who pays tax on this deemed benefit cannot deduct this amount as interest charges, as is the case for an individual to whom this benefit is granted when calculating income derived from a business or a property.

In order to better bring into line the rules concerning deductible interest charges in the calculation of employment income with those derived from a business or a property, modifications will be made to the Taxation Act, applicable from 1984, in order to consider as interest paid the deemed benefit resulting from a loan made by an employer to his employee for the purchase of an automobile, at a reduced interest rate.

- **Certain transfer programs to individuals and the notion of total income**

The Act respecting the real estate tax refund, the Act respecting the work income supplement and the Order in Council respecting Logirente use a notion of "total income" which refers to the Taxation Act, for the purpose of determining the income of beneficiaries which is taken into account for calculating the amounts of the benefits to which they are entitled under these programs. This "total income" includes various amounts which do not actually reflect the real income of these taxpayers.

A taxpayer who transfers certain amounts from a deferred income plan to another plan, his funds in an RPP to an RRSP, for example, may, because of this transfer, see his right to annual benefits cancelled although his real income has not actually increased.

In order to correct this situation, changes will be introduced in this notion of "total income" in the acts and order creating these programs.

The changes will apply in the case of a property tax refund to taxation year 1985 and subsequent years, in the case of a work income supplement to work income supplement applications for 1985 and subsequent years and in the case of housing allowances under the Logirente program to the allowances paid from the period beginning October 1, 1985, and ending September 30, 1986.

- **Fees payable by foreign delegations**

To comply with the spirit of international conventions, the Québec Government has adopted measures aimed at exempting accredited employers representing a foreign country or an international organization from the payment of the sale tax or the meals and hotel tax. To complete the recognition of international conventions, the law will be amended to exempt from the payment of automobile registration fees and duties on the issue of alcohol licences, the foreign delegations, diplomatic envoys and accredited international organizations. This measure will come into force as of midnight on the evening of the Budget Speech.

8. CONCORDANCE WITH FEDERAL TAX LEGISLATION AND REGULATIONS

On December 13, 1984, the federal Minister of Finance and the Minister of Energy, Mines and Resources jointly announced in a press release the extension for an indefinite period of the possibility of claiming accelerated depreciation with respect to certain energy conservation equipment. Such equipment includes that found in category 34 of Appendix B in the Tax Regulations, which has been acquired after May 25, 1976, and prior to January 1, 1985, and which is made up of energy conservation material.

On February 12, 1985, the federal Minister of Revenue announced that for taxation years other than those that cannot be reopened under the Income Tax Act, an employee may carry over to subsequent years, subject to the annual limit otherwise applicable, the excess amount of a contribution to a Registered Pension Plan which he was unable to claim as a deduction in the calculation of his income for the year.

With regard to both measures, Québec tax legislation and regulations will be amended to better harmonize the federal and Québec tax systems. These concordance measures will apply on the same dates and under the same conditions as with respect to federal tax, taking into account the necessary adaptations.

APPENDIX B

Medium-Term Perspectives of the Gouvernement du Québec's Financial Position

MEDIUM-TERM PERSPECTIVES OF THE GOUVERNEMENT DU QUÉBEC'S FINANCIAL POSITION

INTRODUCTION ..... B – 5

MEDIUM-TERM ECONOMIC PERSPECTIVES ..... B – 5

MEDIUM-TERM FINANCIAL FRAMEWORK ..... B – 6

- Own-source revenue ..... B – 6
- Federal transfers ..... B – 7
- Budgetary expenditure ..... B – 8
- Financial framework ..... B – 10

INTRODUCTION

A three-year forecast of the government's financial framework, while tied to economic uncertainty, makes it possible to establish, in light of policies and tax and budgetary changes announced in this Budget Speech, the Québec government's financial perspectives, where it is assumed that such policies will be maintained throughout the period.

This Appendix quickly reviews economic forecasts related to the government's medium-term financial position, then discusses changes in revenue, expenditure and the financial framework during the period 1985-1986 to 1987-1988.

This analysis shows that, for several years, the gouvernement du Québec has adapted management of its finances to adjust to a permanent slowdown in economic growth trends which have characterized most Western economies. Since 1981-1982, this operation has necessitated extensive rationalization of expenditures, which will have to be maintained during the forecast period if the government is to pursue its goal of reducing the deficit, with a view to bringing growth in its debt into line with national wealth, and keep public sector borrowings at the same level as its investments, as was the case in 1984-1985.

MEDIUM-TERM ECONOMIC PERSPECTIVES

Québec's economic prospects during the coming three years will be strongly affected by the growth experienced by its principal trading partners. Indeed, more than 40 percent of Québec output is sold on external markets, especially in the United States and the other provinces of Canada.

In 1983-1984, the upswing in output occurred at a decidedly quicker pace in Québec than in Canada as a whole. In the coming years, the gouvernement du Québec will inject substantial sums directly into the economy, under its plan of action, in order to bolster economic recovery: $354 000 000 in 1985-1986, $462 000 000 in 1986-1987, and $501 000 000 in 1987-1988. The effect of the increase in expenditure made by other economic agents within the scope of this plan must be added to this amount as well as the structuring effect of the fiscal measures announced in the Budget Speech aimed at ensuring growth in businesses and making the Québec tax system more competitive. Benefits arising from developments of a structural nature in recent years will materialize gradually: realignment of production in favour of industries with high growth potential and productivity, modernization of industries such as pulp and paper and aluminum, and marked growth in the penetration of numerous manufacturers on foreign markets.

These factors suggest that Québec will pursue its economic expansion in the coming years. However, economic growth will be affected by a number of imbalances, including, among others, the extent of budget deficits in the United States and Canada, and the high level of real interest rates. Consequently, medium-term economic growth will be fairly modest.

The following table summarizes expected changes in Québec's principal economic indicators.

Table B-1
QUÉBEC'S MEDIUM-TERM ECONOMIC PERSPECTIVES

	1979-1983	1984-1988		
		Period overall	1984 and 1985	1986-1988
	(average annual rate of growth as a percentage during the period)			
Gross domestic product	9.9	6.3	7.4	5.6
Real domestic product	0.8	2.9	3.6	2.5
Consumer prices	9.7	3.7	4.3	3.4
Average weekly wage	9.1	3.9	3.9	4.0
Wages and salaries	9.2	5.7	6.3	5.3
Retail sales	8.4	6.2	8.4	4.8
Employment	0.9	2.0	2.6	1.6
Rate of unemployment*	11.5	12.4	12.6	12.3

* As a percentage

An examination of growth factors in the Québec economy reveals that its development during the second half of the 1980s will depend essentially on the vitality of exports. However, it must be pointed out that the effective contribution of foreign trade to Québec's economic growth might be altered by the outcome of discussions on free trade between Canada and the United States, a more pronounced tendency toward protectionism in a number of countries and future decisions concerning quotas designed to protect the clothing and shoe industries.

Domestic demand should grow at a fairly moderate rate, reflecting, above all, the fact that real interest rates are expected to remain at historically high levels. The average growth rate in Québec's output should, under the circumstances, reach about 2.5 percent between 1985 and 1988, which is similar to that in Canada as a whole. Because of increased productivity, employment is expected to grow by an average of 1.6 percent during the same period. In the light of an increase in prices, Québec's gross domestic product should reach $123 000 000 000 in 1988, compared with $98 000 000 000 in 1984.

MEDIUM-TERM FINANCIAL FRAMEWORK

Own-source revenue

Changes in the gouvernement du Québec's own-source revenue are affected not only by the nature of the sources of economic growth, but also by changes in the fiscal structure. It is for this reason that no precise, stable relationship exists in time between changes in own-source revenue and those in nominal gross domestic product.

Nonetheless, it is to be noted that starting in 1982-1983, average growth in own-source revenue has been more moderate than that recorded since the end of the 1970s. This downturn coincides with relatively slower growth in nominal gross domestic product, primarily as a result of the deceleration in inflationary pressures.

Table B-2
CHANGES IN BUDGETARY REVENUE COMPARED WITH THE GDP
(in millions of dollars)

	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
Own-source revenue	7 155	8 009	8 566	9 453	10 722	12 910	13 918	15 074	15 947	17 635	18 959	20 124
% change	16.9	11.9	7.0	10.4	13.4	20.4	7.8	8.3	5.8	10.6	7.5	6.1
Federal transfers	2 567	3 136	3 333	3 824	3 972	4 572	5 292	6 337	6 393	6 520	6 561	6 951
% change	13.6	22.1	6.3	14.7	3.9	15.1	15.7	19.7	0.9	2.0	0.6	5.9
Budgetary revenue	9 776	11 145	11 899	13 277	14 694	17 482	19 210	21 411	22 340	24 155	25 520	27 075
% change	15.9	14.1	6.8	11.6	10.7	19.0	9.9	11.5	4.3	8.1	5.7	6.1
Growth in the GDP in % [1]	17.5	8.4	11.8	11.4	11.6	13.8	5.0	7.6	8.4	6.3	5.0	5.3

[1] For the calendar year ended three months prior to the end of the fiscal period under consideration

In 1984-1985, growth in own-source revenue only reached 5.8 percent. Among other things, this sluggish growth was due to the impact over a full year of the reduction in the rate of the fuel tax from 40 percent to 30 percent, and the effect on personal income tax of a level of growth in average wages for all industries which was below that in consumer prices. The reestablishment, in subsequent years, of a rate of growth in average wages which was equivalent to, or higher than, the consumer price index, combined with the fiscal measures announced in this budget, will contribute to restoring a rate of growth in own-source revenue higher than that of nominal gross domestic product starting in 1985-1986.

Federal transfers

Federal transfer revenue has changed in a fairly irregular manner due, in large part, to the process of adjustment with respect to preceding years. Data on the population, the GNP and basic federal tax are revised regularly, which implies adjustments in payments related to, above all, equalization program and the financing of established programs. Notwithstanding such adjustments, the following table indicates that relatively substantial changes in federal transfers nonetheless persist. Such changes can be explained, essentially, by changes in economic variables and by the very manner in which federal transfers are calculated.

Table B-3
CHANGES IN FEDERAL TRANSFER REVENUE
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
Transfers attributable to the current year — Accrual method	5 356	6 030	6 250	6 423	6 618	6 953
% change	11.7	12.6	3.7	2.8	3.0	5.1
Adjustments with respect to preceding years	−64	+307	+143	+97	−57	−2
Transfer revenue Cash basis	5 292	6 337	6 393	6 520	6 561	6 951
% change	15.7	19.7	0.9	2.0	0.6	5.9

It is anticipated that federal transfers attributable to the current year will continue to decline markedly in coming years. While they grew by an annual rate of 12.6 percent in 1983-1984, such growth will drop to approximately 3.0 percent in 1985-1986 and 1986-1987. These changes reflect the downturn in nominal economic growth; they are also caused to a large degree by the substantial drop in equalization entitlement. Appendix III of the Budget Speech discusses in some detail the problem arising from this transfer program. In 1985-1986, equalization entitlement is expected to drop by 6.0 percent following the expiry of the transitional equalization guarantee. Were it not for the $110 000 000 arbitrary payment the federal government recently made, the drop would have been 9.5 percent. In fact, Ottawa has only covered 38 percent of the decrease in equalization entitlement in 1985-1986.

In 1986-1987, the 3.0 percent increase in overall federal transfers must be compared with equalization entitlement, which is only expected to grow by 0.6 percent. With respect to the 1987-1988 forecast, as it is impossible to anticipate the outcome of negotiations concerning the impending 1987-1992 fiscal arrangements, the current forecast is predicated on the renewal of the fiscal arrangements now in effect.

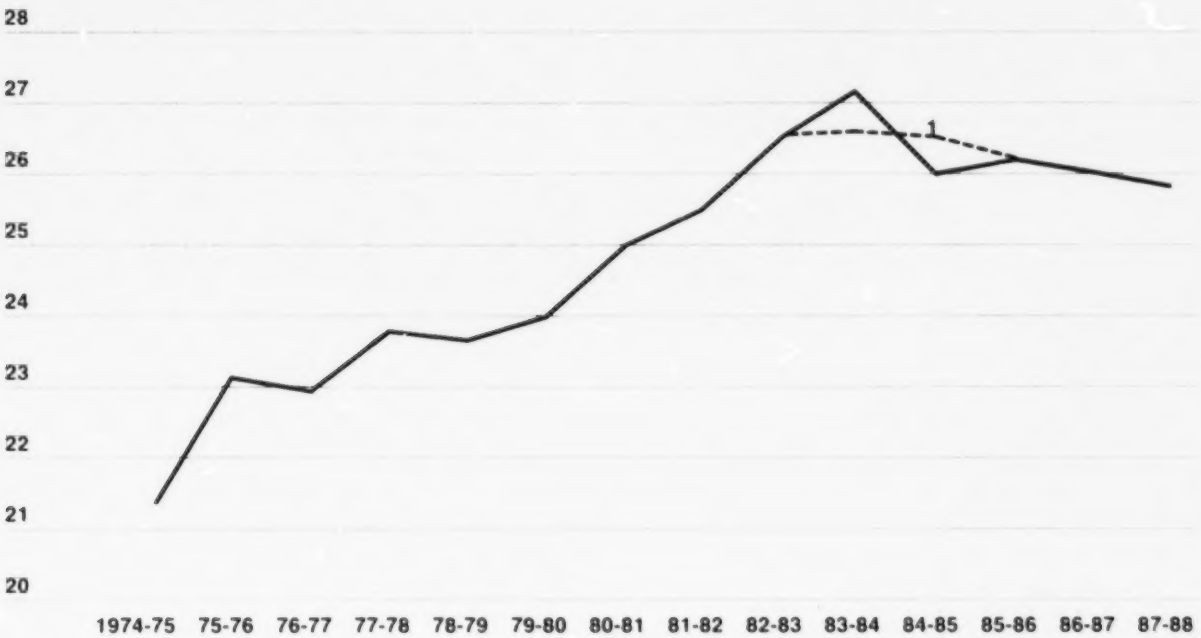
Budgetary expenditure

Changes in the Québec government's budgetary expenditure over the past ten years fall into two distinct phases, as Graph B-1 clearly illustrates. Until 1982-1983, growth in such expenditure was decidedly more marked than economic growth, with the result that the share of expenditure in the GDP, which reached 21.4 percent in 1974-1975, totalled 23.0 percent in 1976-1977; it continued to rise until 1982-1983, when it reached 26.5 percent. Indeed, the rate of growth of expenditure during this period was higher than that in the GDP in all years except two.

In 1981-1982, in response to a need to adapt to a different economic situation, there began a new period in the management of government finances, whose full effects were felt as of 1982-1983. First, successive programs of budget cuts involving $840 000 000, $670 000 000, $410 000 000, $220 000 000 and $370 000 000 were implemented between 1981-1982 and 1985-1986. In addition to these programs, a more restrictive pay policy covering public and parapublic sector employees was introduced, which, after significantly reducing the discrepancy between the private and the public sectors, stabilized growth of wage scales at the inflation rate less 1.5 percent. This attempt at rationalizing expenditure has enabled the government to find resources to allocate to economic recovery, and to embark upon new initiatives; the cost of such programs introduced since 1983-1984 will total $1 200 000 000 in 1985-1986. Thus, it has been possible to restrict budgetary expenditure to a rate of growth below the increase in wealth as measured by the GDP.

Graph B-1 shows that the curve representing the expenditure-GDP ratio reached a peak in 1982-1983, and subsequently stabilized, then fell. This trend is especially evident when we examine the dotted curve, which adjusts data to take into account the effect of anticipating expenditure in 1983-1984 which would, otherwise, have been payable during subsequent fiscal years.

GRAPH B-1
SHARE OF EXPENDITURE IN THE GDP
(as a percentage)



1 DATA ADJUSTED TO TAKE INTO ACCOUNT ANTICIPATION OF EXPENDITURE IN 1983-1984

Table B-4
COMPARISON OF CHANGES IN EXPENDITURE WITH CERTAIN ECONOMIC INDICATORS
(in millions of dollars)

	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
Budgetary expenditure without anticipation of expenditure	7 587	9 229	10 717	12 045	13 387	15 110	17 592	20 393	22 259	24 093	25 937	27 255	28 495	29 780
% change	26.0	21.6	16.1	12.4	11.1	12.9	16.4	15.9	9.2	8.2	7.7	5.1	4.5	4.5
Anticipation in 1983-1984 of expenditure otherwise payable in subsequent years										431	(422)	(5)	(5)	
Total expenditure (in millions of $)	7 587	9 229	10 717	12 045	13 387	15 110	17 592	20 393	22 259	24 524	25 515	27 250	28 490	29 780
% change	26.0	21.6	16.1	12.4	11.1	12.9	16.4	15.9	9.2	10.2	4.0	6.8	4.6	4.5
Rate of growth in the GDP as a %*	18.1	12.1	17.5	8.4	11.8	11.4	11.6	13.8	5.0	7.6	8.4	6.3	5.0	5.3
Rate of inflation in Canada as a %*	10.9	10.8	7.5	8.0	8.9	9.2	10.2	12.5	10.8	5.8	4.4	4.1	3.1	3.2

* For the calendar year ending three months prior to the end of the fiscal year

During the years to come, the government intends to pursue its efforts to rationalize expenditures while supporting the economy. Despite the introduction of new initiatives in 1985-1986 worth a recurring total of $152 000 000, the anticipated rate of growth in budgetary expenditure will remain lower than that of the gross domestic product. The share of expenditure in the GDP, after having reached a high of 27.1 percent in 1983-1984, will drop to 25.8 percent in 1987-1988.

The objective of reducing the share of expenditure in the GDP is all the more restrictive as the cost of certain programs will continue to grow at a faster rate than the anticipated rate of growth of gross domestic product. This is especially true with regard to public debt service, government contributions to public sector retirement plans and the health care insurance program.

Financial framework

On the basis of the forecasts outlined earlier, the following table illustrates changes in financial requirements.

Table B-5
GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS[1]
(in billions of dollars)

	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
Budgetary transactions							
— Revenue	17.5	19.2	21.4	22.3	24.2	25.5	27.1
— Expenditure	-20.4	-22.3	-24.5	-25.5	-27.3	-28.5	-29.8
Deficit	- 2.9	- 3.0	- 3.1	- 3.2	- 3.1	- 3.0	- 2.7
Balance of non-budgetary transactions	0.8	0.8	0.9	1.2	1.5	1.4	1.3
Net financial requirements	- 2.1	- 2.2	- 2.2	- 2.0	- 1.6	- 1.6	- 1.4

N.B.: A minus (-) indicates a financial requirement and a plus (+) sign, a source of financing.

1 Figures rounded off

It is clear that in recent years, the government has pursued its objective of stabilizing the level of its deficit and net financial requirements. However, the borrowing needs arising from them have, nonetheless, led to an increase in the overall importance of the government debt in the economy, and the share of the budget allocated to servicing the public debt.

Under the circumstances, the government's goal in the coming years is to reduce the budgetary deficit in order to stabilize debt indicators and keep borrowing in the Québec public sector at the level of its investments. This attempt to reduce the deficit will result in a decrease in its relative importance in the economy, from 3.2 percent in 1984-1985, to 2.3 percent in 1987-1988.

Net financial requirements will decline appreciably over the forecast period, to $1 400 000 000 in 1987-1988, compared with $2 000 000 000 in 1984-1985. The drop is primarily attributable to the expected reduction in the deficit, although it also results from a higher anticipated balance of non-budgetary transactions, explained, on the one hand, by regular growth in the surplus in the retirement plans account and, on the other, by the repayments, which will be especially significant in 1985-1986, by certain government corporations of State loans or advances made to them in previous years.

As Graphs B-2 and B-3 and Table B-6 indicate, expected changes in the Québec government's financial framework will result, in the medium term, in a considerable decrease in the ratios of the deficit and net financial requirements to the GDP. Consequently, the government's direct debt will grow much more slowly in relation to the GDP, to come into line with its growth in 1987-1988.

GRAPH B-2
BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS AS A PERCENTAGE OF THE GDP

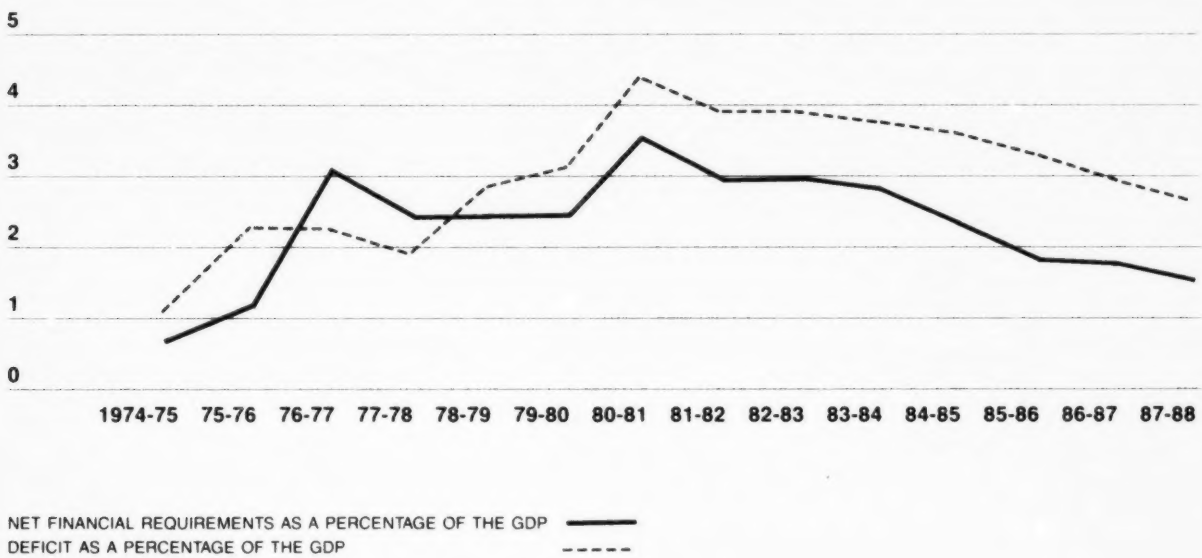
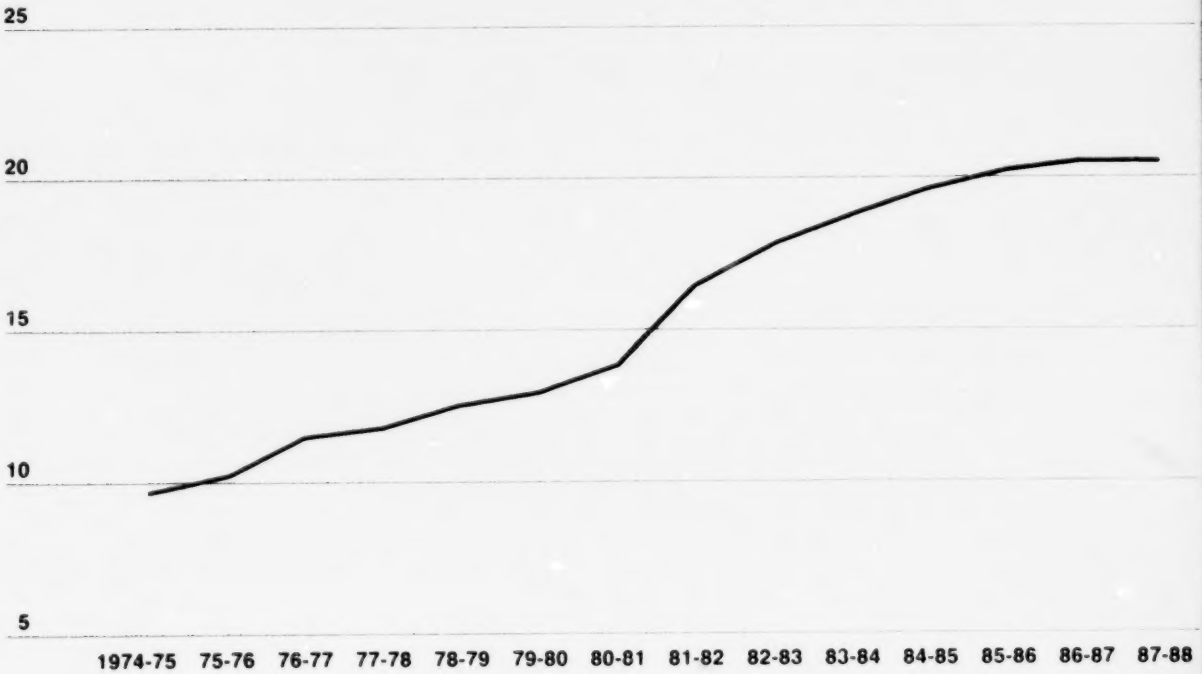


Table B-6
DEFICIT AND NET FINANCIAL REQUIREMENTS AS A PERCENTAGE OF THE GDP

	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
Deficit/GDP	09	21	21	18	26	29	41	36	36	34	32	30	27	23
Net financial requirements/GDP	05	10	29	23	22	22	33	27	27	25	20	15	14	12

GRAPH B-3
RATIO OF THE DIRECT DEBT TO THE GDP
(as a percentage)



N.B. THIS RATIO IS CALCULATED BY DIVIDING THE DEBT AS AT MARCH 31 OF THE GOVERNMENT'S FISCAL YEAR UNDER CONSIDERATION BY THE GDP FOR THE CURRENT CALENDAR YEAR